

*Senate Budget and Fiscal Review—Wesley Chesbro, Chair***SUBCOMMITTEE NO. 4****Agenda**

Joseph Dunn, Chair
 Tom McClintock
 Christine Kehoe



Wednesday, April 27, 2005
 1:30 p.m.
 Room 2040

Consultant: Dave O'Toole

"A" AGENDA

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Consent / Vote-Only Calendar

8855	Bureau of State Audits
9612	Enhanced Tobacco Settlement Asset-Backed Bonds
9620	Payment of Interest on General Fund Loans
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CONTROL SECTIONS

8.50	Federal Funds Receipts
8.51	Federal Funds Accounts
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9.30	Federal Levy of State Funds
11.52	Transfer of Unencumbered Balance of Various Funds to the General Fund
32.00	Prohibits Excess Expenditures

Department Budgets Proposed for Consent / Vote Only

VOTE:

Department Budgets Proposed for Discussion

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. The BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. The BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. Total proposed budget expenditures are \$364.9 million, of which \$209.5 million is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
County Assessment Standards	\$8,027	\$8,094	\$67	0.8%
State Assessed Property	6,772	6,827	55	0.8
Sales and Use Tax	281,178	281,006	-172	-0.1
Cigarette and Tobacco Products Tax	12,667	17,094	4,427	34.9
Diesel and Use Fuel Tax	16,929	16,242	-687	-4.1
Administration	33,213	33,213	0	0.0
Distributed Administration	-33,213	-33,213	0	0.0
Other Programs	32,998	35,655	2,657	8.1
Unallocated Reduction	0	-62	-62	0.0
Total, Programs	\$358,571	\$364,856	\$6,285	1.8%
Fund Source				
General Fund	\$207,889	\$209,481	\$1,592	0.8%
Motor Vehicle Fuel Account	20,169	19,402	-767	-3.8
Federal Trust Fund	32	0	-32	-100.0
Reimbursements	106,033	101,464	-4,569	-4.3
Other Funds	24,448	34,509	10,061	41.2
Total, Fund Source	\$358,571	\$364,856	\$6,285	1.8%

1. FINANCE LETTERS PROPOSED FOR CONSENT:

Out-of-State Legal Representation. The Board of Equalization requests to augment its budget by \$1,862,000 to provide additional resources to contract with outside counsel for representation in out-of-state legal cases. These services had previously been provided by the Department of Justice; however, the DOJ recently notified the BOE that they could no longer provide representation in out of

state cases. Funding for four positions to monitor these contracts and track the progress of the cases in question is included in the request.

Revised Alternative Cigarette Tax Stamp Project Funding. In a Finance Letter presented to the Legislature in May of last year, the Board of Equalization sought \$4.9 million for 2004-05 and \$9.8 million ongoing to implement the provisions of Chapter 881, Statutes of 2002 (SB 1701, Peace). That statute requires the Board of Equalization to replace the current cigarette stamps with an encrypted stamp that can be read by a scanner. Expected annual revenues from reduced black market sales were \$28.8 million.

This Finance Letter requests to adjust expected costs and revenues due to delays in implementing the new stamp. Litigation against the Board by one of the losing bidders for the encrypted stamp contract resulted in a postponed project start and a delay in implementation by many cigarette sellers. Consequently, current year costs will be reduced by \$1.9 million and ongoing costs reduced by \$4.5 million (\$516,000 General Fund). Updated revenue estimates are \$8.2 million in the current year and \$28.1 million ongoing.

CONSENT VOTE:

2. **Finance Letter: Consumer Use Tax Staffing Increase.** The Board of Equalization requests seven, two-year limited term tax technician positions for the Consumer Use Tax Section. Of the requested positions, six would be assigned to the Vessel, Vehicle, and Aircraft Program and one to the United State Customs Program.

The Vehicle Vessel and Aircraft Program oversees the purchases of vehicles, vessels, and aircraft that are subject to use tax from non-licensed sellers (private individuals). Due to recent position reductions and new workload requirements, the BOE shifted personnel away from the Vehicle, Vessel, and Aircraft Program. This request would restore some of those revenue-generating positions.

The workload associated with the U.S. Customs Program is based on a recent pilot project that involved reviewing Customs data on over one million individual quarterly transactions for items imported through California's commercial ports of entry and then collecting use tax due. The results from that pilot were surprising: over \$6400 in collections per hour of work. In budgeting for the new position, the Board conservatively estimated \$1000 per hour in 2005-06 and 2006-07.

Staff Comment: In discussions with the BOE, it was determined additional support would generate greater tax compliance and additional revenues. With the addition of 12 (versus 6) new positions, the Vehicle, Vessel, and Aircraft Program is expected to generate \$5 million in the current year and \$10 million in 2006-07. Under the submitted proposal, the new positions would generate \$3 million in 2005-06 and \$6 million in 2006-07.

The addition of two new positions in the Customs program would generate an additional \$2.3 million in the budget year and subsequent year.

With this total augmentation of eight positions, the additional new budget year revenue has been estimated by the BOE to be \$4.3 million.

Staff Recommendations: Approve the Finance Letter for \$415,000 and seven additional positions and:

- A. Augment the Vehicle, Vessel, and Aircraft program by six, two-year limited term positions: three Tax Technician I positions, two Tax Technician IIs, one Tax Technician III, and associated costs (an augmentation of approximately \$340,00 General Fund).
- B. Augment the U.S. Customs program by two two-year limited term Tax Technician III positions and associated costs (an augmentation of approximately \$130,000 General Fund).

Vote:

3. **Sales and Use Tax Amnesty Update.** Budget trailer bill enacted as part of the 2004 Budget Act created a tax amnesty program that would waive penalties for individuals and businesses that pay overdue tax liabilities for years prior to 2003. The filing period for tax amnesty was February 1 to March 30, 2005. Individuals and businesses that did not pay past debts or arrange installment payment agreements were assessed significant new penalties at the close of amnesty. Both the Board of Equalization and the Franchise Tax Board implemented the amnesty program.

Revenues for the sales and use tax portion of tax amnesty have come in considerably higher than expected. Net revenues, originally estimated to reach \$3.5 million, had already climbed above \$15 million as of mid-April.

Staff Recommendation: The Board of Equalization should briefly comment on the success of the Program for both the state and localities, the most recent revenue estimates, and expected net revenues in the budget year.

4. **Remittance processing.** The Board of Equalization annually processes approximately \$30 billion in sales and use and other tax remittances. Of that amount, approximately 60 percent are paid through electronic funds transfer (EFT). The BOE offers the Automated Clearing House debit method which allows taxpayers to transfer funds by authorizing the BOE to electronically debit their bank account when their payment information is submitted.

The remaining funds come through cash, check, or credit card payment. These non-EFT payments can be made at office locations throughout the state, but are more often submitted by mail with tax forms to the central processing facility. Credit card payments can be made online or by telephone through an Interactive Voice Response (IVR) System. The credit card processing vendor charges a convenience fee of 2.5% of the transaction amount. Payments under \$40 are subject to a minimum fee of \$1. In fiscal year 2003-04 the BOE received over \$44.6 million by credit card.

Staff Comment: Technology has provided two primary alternatives to the manually intensive operation of processing checks by hand. The first option, "optical scanning," is utilized by EDD to electronically review and count the check number and amount. The second option, which BOE intends to pursue, is greater utilization of online payments.

For both special taxes and sales and use taxes, all holders of sales and use tax permits whose average monthly tax payments are \$20,000 or more are required to pay their sales and use taxes by EFT. This \$20,000 threshold has been unchanged for nearly a decade.

The most significant hindrance to paying BOE by EFT is the fact that form filing is still largely unautomated. Because these documents are usually sent by mail, it's generally more convenient to file a tax form with the remittance, rather than submit one by mail and the other by computer. In comparison, when the FTB implemented electronic filing, electronically filed *remittances* grew from 0.8 million to 1.2 million, a 50 percent increase.

Staff Recommendations: The Subcommittee should request that the BOE report on:

- A. Current efforts to increase EFT filing and enable free online credit card payments.
- B. The revenue impact, number of new EFT filers, and other considerations if the EFT payment threshold were reduced to \$10,000 and \$5,000.

- 5. Electronic Filing.** The Board of Equalization currently provides, on a limited scale, the ability for sales and use tax filers to submit their paperwork through an online document. The BOE expects to expand this program further in January by making electronic filing available to 700,000 single outlet retailers. BOE expects that only 10 percent of the 700,000 eligible single outlet retailers will file electronically.

LAO Comment: The application of electronic technologies to tax administration has expanded rapidly over the last decade. As we indicated in our January 2005 report, Tax Agency Consolidation: Remittance and Return Processing, the Employment Development Department (EDD) and FTB have increasingly converted to electronic technologies in the filing of tax returns and remittances as well as the processing of this documentation.

The advantages of shifting to electronic remittances and returns are significant. From the taxpayer's perspective, using electronic filing can minimize record keeping requirements, increase filing accuracy, and reduce costs in the long term. From a tax agency perspective, electronic technologies decrease processing time, reduce storage costs, minimize personnel requirements, improve data accuracy, and facilitate sharing of information for enforcement and compliance purposes.

The processing costs associated with electronic returns and remittances are far below those for paper documentation. For example, FTB estimates that 4,800 electronic remittances can be processed for each direct staff hour. For paper submissions, only 65 remittances can be processed for each direct staff hour.

Electronically filed returns and remittances represent a growing component of tax agency processing activities. At FTB, this growth has occurred as a combined result of statutory mandates for tax practitioners as well as a "natural" migration from paper to electronic filing by individual and business taxpayers. The FTB reports that between the 2000 tax year and the 2003 tax year, electronically filed returns expanded from 2.3 million to 3.7 million, or 63 percent. The department expects 10 percent annual growth in electronic remittances through 2008, and 5 percent to 10 percent annual growth in electronic returns through the same period.

Investing in electronic technologies is likely to have substantial payoff over the medium- to long-term in terms of budgetary savings, due largely to reduced staffing requirements. In addition, the technology is likely to have significant benefits for coordination and information sharing among the tax agencies for enforcement and compliance purposes. Finally, such a shift will simplify filing requirements and result in reduced costs for taxpayers.

While converting to electronic filing and processing would result in annual savings for the state in the medium-to long-term, it is also important to note that investing in electronic technologies would require up-front investment by the state. (One potential means of addressing these costs is through alternative procurement, whereby the costs of implementation are "paid" through savings achieved through the project.) Given the complexity of the issues associated with electronic filing and processing, we recommend that BOE report at budget hearings regarding its medium- to long-term goals regarding this technology, including estimates of related savings and costs.

Staff Comment: As a point of comparison, FTB's CalFile program offers current-year free electronic filing directly on FTB's web site. In addition, FTB provides taxpayers with a variety of options for free and fee-based filing from private online tax software vendors. FTB's CalFile program is over ten years old and has the third largest share of usage by state citizen's in the country. In 2004, slightly over 50 percent of all returns were filed electronically. That share climbed to 60 percent in 2005.

Staff Recommendations: Request the Board of Equalization report on:

- A. The status of efforts to convert existing paper tax filings and manual processing to electronic systems, including the agency's medium- to long-term goals regarding this technology as well as estimates of related savings and costs.
- B. In light of the historic participation rates with CalFile, the basis for assuming 10 percent participation in the first year of electronic filing.

6. **BOE Headquarters Window Repair.** The Board of Equalization requests an augmentation of \$12,292,000 (\$1.43 million General Fund) for repairing the windows on the BOE's Sacramento headquarters building. Over the last few years progressive deterioration of the window gaskets has occurred, to the point where leaks are common and there is danger of windows falling away from or into the building.

In the 2004 Budget Act, the Legislature authorized \$100,000 for a detailed budget package of project costs and directed the BOE to explore the possibility for holding the window manufacturer accountable for the window defects. DGS staff (working on behalf of the BOE) reported back that a one-year warranty on the gasket material had been originally negotiated several years ago and that litigation was not promising.

In order to implement the change, the BOE requests provisional language be added to Item 0860-001-0001:

Of the amount appropriated in Schedule (2) of this Item, \$12,292,000 shall be for repair of the window curtain on the Board of Equalization's Sacramento headquarters building. The Board of Equalization shall use these funds to effect all window curtain repairs deemed necessary by the Department of General Services.

LAO Comment: The LAO has expressed concerns that the replacement schedule is particularly aggressive and may not afford time for a comprehensive testing of the prototype gasket. As an alternative, the BOE should be funded for preliminary plans only, with the working drawings and construction phases held over until a subsequent year. The additional time will afford the DGS (the agency directly responsible for the repair) the opportunity to fully test a prototype of the gasket material. The LAO recommends reducing the proposal by \$11,923,000 to provide funding of \$369,000 for the preliminary plans phase.

Staff Recommendation: Request DGS respond to concerns expressed by the LAO that the schedule is not realistic and will not allow for appropriate testing of the gasket material.

0890 Secretary of State

The Secretary of State (SOS) is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary laws, and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, Information Technology and Management Services Divisions. Total proposed budget expenditures are \$76.4 million, of which \$30.3 million is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Business Programs	\$39,068	\$41,353	\$2,285	5.8%
Elections	249,129	17,653	-231,476	-92.9
Political Reform	3,329	2,537	-792	-23.8
Archives	13,834	14,131	297	2.1
Executive Administration	2,844	2,950	106	3.7
Distributed Executive Administration	-2,844	-2,950	-106	0.0
Management Services	5,646	5,063	-583	-10.3
Distributed Management Services	-5,266	-4,683	583	0.0
Information Technology	7,534	7,555	21	0.3
Distributed Information Technology	-7,216	-7,237	-21	0.0
Local Assistance	42,600	0	-42,600	-100.0
State Mandated Local Programs	4	0	-4	-100.0
Total, Programs	\$348,662	\$76,372	-\$272,290	-78.1%
Fund Source				
General Fund	\$40,466	\$30,299	-\$10,167	-25.1%
Secretary of State's Business Fees	31,034	33,319	2,285	7.4
Federal Trust Fund	266,100	1,700	-264,400	-99.4
Reimbursements	9,462	9,454	-8	-0.1
Victims of Corporate Fraud Compensation	1,600	1,600	0	0.0
Total, Fund Source	\$348,662	\$76,372	-\$272,290	-78.1%

- 1. Help America Vote Act (HAVA) Spending.** In the fall of 2002, Congress passed and the President signed legislation to fund improvements to states' election systems. HAVA funds have been appropriated nationwide with the direction to implement broad election reforms and improve the accuracy and performance of each state's voting processes. For California, these activities include developing a statewide voter database and replacing punch card voting machines with more modern

equipment. The 2004-05 budget appropriated an additional \$264 million in federal funds for these purposes.

Since these federal funds were first released, the SOS has spent relatively little HAVA funds. The delay has primarily been due to the lack of a spending plan approved by the Administration and Legislature. Additionally, fund misuse and mismanagement (documented in a December 2004 Bureau of State Audits report) raised significant questions over how those HAVA funds have been spent.

In March, the Administration approved and submitted to the Legislature a proposed \$280 million spending plan. This plan includes spending over a three-year period, with the bulk of spending (\$201 million) occurring in the current year. The plan was reviewed by the Legislature and re-referred to the Administration and Secretary of State's Office with suggested points for reconsideration.

It is expected that once the plan is finalized, the 2005-06 components of the HAVA plan will be built into a formal May Revise proposal.

Staff Recommendation: The Secretary of State's Office should provide the Committee with an update on the status of the plan and any aspects of the HAVA expenditure plan that have been revised or reconsidered.

2. **Special Items of Expense.** The Governor's Budget includes an expenditure of \$3.02 million for special items of expense to cover anticipated election costs in the budget year, i.e., the June 2006 election. These expenses include paying for the ballot pamphlet, voter registration cards, and election night reporting. This annual expense has been left unbudgeted for the last several years, resulting in the Secretary of State having to submit deficiency requests to pay the expenses—a practice inconsistent with the “unanticipated” criteria of deficiency requests.

Staff Comment: The county's 2005-06 voter registration card needs include both the restocking of existing cards to meet HAVA requirements and filling county's quarterly replacement orders, a total roughly approximated at 20 million cards. The HAVA plan described previously includes only an expense item for restocking 10 million new cards and removing the current voter registration cards from circulation for the June 2006 election.

An alternative to funding the quarterly replacements with General Fund would be to fully fund the voter registration card replacement with federal HAVA funds for the 2005-06 year.

Staff Recommendation: Reduce the Special Items of Expense budget change proposal by \$521,000 to reflect removal of the voter registration card funding. Voter registration card replacement costs are eligible HAVA expenditures. (Note: Because HAVA funding is one-time only, the Secretary of State's office will likely request funding next year to pay for the quarterly voter registration card requests.)

Vote:

3. **Secretary of State Mandates.** The Secretary of State's budget includes the suspension of seven mandates. These mandates are: Absentee Ballots, Brendon Maguire, Voter Registration Procedures, Permanent Absentee Voters, Handicapped Voter Access, Presidential Primaries, and Absentee Ballots—Tabulation by Precinct. The seven proposed suspensions are expected to save the state a total of \$16.5 million.

LAO Comments:

A. Repeal the handicapped voter access information and presidential primaries mandates.

Federal law now generally provides greater protections and rights for disabled voters than that of the handicapped voter access information mandate. For this reason, the mandate has been long suspended. We can find no policy reason why it is necessary to maintain the mandate's provisions in state law. Likewise, since Proposition 198 is no longer in effect, the provisions of the presidential primaries mandate no longer place any meaningful requirements on counties. We recommend that the Legislature repeal the handicapped voter access information and presidential primaries mandates. Repealing both mandates would not affect election procedures.

B. Fund the Legislature the Brendon Maguire Act and the Absentee Ballot—Tabulation by Precinct mandates. (Increase Item 0890-295-0001 by \$8,000 and make conforming changes in Provision 1.)

In most years, since candidate deaths immediately prior to elections are rare, the provisions of the Brendon Maguire Act would not be triggered and the state would not incur any costs. If the Legislature wishes to change its policy regarding the death of candidates, providing a new statutory framework would be more appropriate than a year-to-year suspension of the mandate. Regarding the tabulation of absentee ballots, almost all of the mandate's costs were one-time in nature. Funding the continuation of the mandate would incur only minimal additional costs since counties are simply maintaining existing lists. Suspending the mandate and then reinstating it in future years, however, could be relatively much more expensive—since counties again could incur substantial one-time costs if they chose to abandon their lists during the suspension. Fully funding these two mandates would be consistent with prior legislative policy. We recommend that the Legislature fund the mandates. This recommendation would require a total appropriation of \$8,000—\$1,000 for the Brendon Maguire Act (since no costs are expected) and \$7,000 for the tabulation mandate.

C. Under the Administration's proposal, counties would have the option to maintain mandated procedures.

Other than the potential savings, the Administration has not provided the Legislature any policy rationale for the suspension of the mandates. By suspending the mandates, the requirements under state law become optional for local governments. In the context of these mandates, that means, for instance, that each county could decide whether to offer absentee ballots to voters who did not meet the pre-1978 criteria of being disabled or ill. Without a stated policy rationale, it is unknown whether the administration, through the suspensions, hopes to encourage election-related changes—such as a move away from uniform state laws to a more county-based system or a reduction in the use of absentee ballots.

Staff Comment: If the Brendon Maguire and Absentee Ballot—Tabulation by Precinct mandates are funded, the following technical budget bill provisions must be restored. (This language was removed as part of the Administration's proposal to suspend all mandates.)

- 1. Except as provided in Provision 2 of this item, allocations of funds provided in this item to the appropriate local entities shall be made by the State Controller in accordance with the provisions of each statute or executive order that mandates the reimbursement of the costs, and shall be audited to verify the actual amount of the mandated costs in accordance with subdivision (d) of Section 17561 of the Government Code. Audit adjustments to prior year claims may be paid from this item. Funds appropriated in this item may be used to provide reimbursement pursuant to Article 5 (commencing with Section 17615) of Chapter 4 of Part 7 of Division 4 of Title 2 of the Government Code.*
- 2. If any of the scheduled amounts are insufficient to provide full reimbursement of costs, the State Controller may, upon notifying the Director of Finance in writing, augment those deficient amounts from the unencumbered balance of any other scheduled amounts therein.*

No order may be issued pursuant to this provision unless written notification of the necessity therefor is provided to the chairperson of the committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee or his or her designee.

Staff Recommendations:

- A. Fund the Brendon Maguire Act mandate by increasing Item 0890-295-0001 by \$1,000, make conforming changes in Provision 1 of that item, and restore the two technical provisions displayed above.
- B. Request the Department of Finance and LAO estimate the cost of the Absentee Ballot—Tabulation by Precinct mandate, increase Item 0890-295-0001 by that amount, and make conforming changes to Provision 1 of that item. (The LAO had originally estimated \$8,000 for this mandate.)
- C. Request the Department of Finance report on the policy rationale for suspending the Absentee Ballots mandate.
- D. Adopt the LAO's recommendation to repeal the Handicapped Voter Access Information mandate and direct the LAO to prepare repeal language for inclusion in the Budget Bill.
- E. Adopt the LAO's recommendation to repeal the Presidential Primaries mandates and direct the LAO to prepare repeal language for inclusion in the Budget Bill.

Vote:

- 4. **Suspended Mandates under Item 0890-295-0001.** The Administration proposes to amend budget bill language in Item 0890-295-0001 to reflect the suspension of the Handicapped Voter Access, Presidential Primaries, and Absentee Ballots: Tabulation by Precinct mandates. These mandates were shown as suspended in the Governor's Budget but inadvertently omitted from the Budget Bill.

Staff Recommendation: Pursuant to the recommendation under Issue #3, reject the Finance Letter.

Vote:

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view. Total proposed budget expenditures for the Franchise Tax Board are \$699.6 million, of which \$512.3 million is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Tax	\$416,104	\$422,096	\$5,992	1.4%
Homeowners and Renters	5,688	5,199	-489	-8.6
Political Reform Audit	1,481	0	-1,481	-100.0
Child Support Collections	16,455	16,760	305	1.9
Child Support Automation	155,606	236,988	81,382	52.3
DMV Collections	5,568	5,647	79	1.4
Court Collection Program	5,762	5,966	204	3.5
Contract Work	7,344	7,408	64	0.9
Administration	23,051	23,051	0	0.0
Distributed Administration	-23,051	-23,051	0	0.0
Lease Revenue Bond Payment	7,410	7,410	0	0.0
Unallocated Reduction	-3,139	-7,840	-4,701	0.0
Total, Programs	\$618,279	\$699,634	\$81,355	13.2%
Fund Source				
General Fund	\$485,929	\$512,273	\$26,344	5.4%
Motor Vehicle Account	1,927	1,956	29	1.5
Motor Vehicle License Fee Account	3,640	3,691	51	1.4
Court Collection Account	5,762	5,966	204	3.5
Reimbursements	120,938	175,654	54,716	45.2
Other Funds	83	94	11	13.3
Total, Fund Source	\$618,279	\$699,634	\$81,355	13.2%

1. **Tax Amnesty.** In accordance with Chapter 226, Statutes of 2004 (SB 1100, Committee on Budget and Fiscal Review) the Franchise Tax Board carried out a comprehensive tax amnesty program between February 1 and March 30, 2005. The tax amnesty provided an opportunity for individuals to pay past tax debts and the associated interest. All penalties were waived under the amnesty

program. Accompanying the amnesty program was a broad public awareness campaign (*It was probably just and oversight...*).

Those who were eligible for amnesty but opted not to participate now face significant penalties. These penalties include a new 50 percent penalty on accrued interest and an increased accuracy-related penalty for filers who understate their amount due.

Expected gross revenues from tax amnesty were \$555 million from both individual and corporation filers.

Staff Comment: Recent reports show that the original revenue estimate has been vastly exceeded. With approximately 99 percent of amnesty applications processed, total revenues have reached nearly \$4.4 billion. Approximately \$3.4 billion of that sum is comprised of questionable "protective claims," described below.

It must be recognized, however, that this surplus contains revenue that is concentrated heavily in audit and settlement payments from corporations who made large protective payments. Many of these corporations opted to *pre-pay* tax amounts and dispute the true debt later, rather than be subject to the new penalties. What share of the \$4 billion is comprised of protective payments is uncertain, although the Department of Finance has estimated that as little as 10 percent of the corporate payments are true additional revenues.

Staff Recommendation: Request that the Franchise Tax Board comment on the success of the program, in particular the reasons behind the considerably higher than expected amnesty participation and factors that will affect the final revenue number.

2. **Transfer of Child Support Collection Program Positions to DCSS.** The Administration proposes to reduce the Franchise Tax Board's (FTB) budget by \$12,360,000 to facilitate the transfer of the Child Support Full Collection Program, together with 168.5 positions, from the FTB to the Department of Child Support Services. A corresponding augmentation proposal shows up in the DCSS budget. Chapter 806, Statutes of 2004 (AB 2358, Steinberg) transferred the program authority and responsibilities for the FTB Child Support Collection Program from FTB to DCSS. This Finance Letter proposes to make that transfer effective July 1, 2005.

Staff Recommendation: Approve the Finance Letter.

Vote:

3. **Unallocated Reduction.** The Administration included in the Governor's Budget an unallocated state operations reduction of \$7.84 million for the Franchise Tax Board. The source of the reduction is unidentified, although the Governor's Budget Summary suggests layoffs, hiring freezes, procurement reductions, and other administrative means as options to achieve the required reduction.

Staff Comment: While not uncommon in the state's budget-constrained years, the Legislature is generally wary of unallocated reductions as they can lead to reductions in Legislative priorities without appropriate review.

The possibility that revenues would be adversely affected by FTB reductions was apparently considered but disregarded. No unallocated reduction was included in the Board of Equalization budget.

The FTB has expressed confidence that it can withstand the unallocated reduction without affecting revenues. With some assistance from the LAO, the FTB has already identified the following opportunities for budget year savings:

- Consolidating the Long Island and Manhattan field offices. The FTB is finalizing closure of the Long Island field office for a savings of \$250,000.
- Cost savings of approximately \$400,000 associated with the migration of tax return and remittance submissions from paper versions to electronic data.
- Savings of \$200,000 to account for hiring auditors at the entry-level salary

Staff Recommendations:

- A. Request the Franchise Tax Board confirm the expected savings from office consolidation, electronic tax data, and entry level position reduction adjustments identified above.

Vote:

4. **Tax Gap Enforcement.** The Administration has provided a budget change proposal to augment the Franchise Tax Board by \$8.6 million and 99.2 positions to enhance "tax gap" (the difference between taxes owed to the state and what is paid) enforcement activities. According to FTB, the tax gap is primarily comprised of 80 percent under reporters, 10 percent nonfilers, and 10 percent who don't pay their full amount due. The tax gap is most harmful to the state's tax structure because: (1) those who pay their fair share are forced to pay higher taxes to cover the gap, and (2) tax collections are undermined by the public perception that some parties are not paying their fair share, suggesting those parties should do the same.

Estimated revenue gains from this budget change proposal are \$34 million in 2005-06 (a 4-1 benefit-cost ratio) and \$44 million in 2006-07.

The position and program components of this proposal include:

- 36.5 positions for detection of preparers filing fraudulent returns
- 31 positions to augment audit staff
- 14.9 positions to pursue additional information sources to identify nonfilers
- 3 positions to implement an informant award program
- 19 positions for underground economy criminal investigations

Trailer bill language provided with this proposal (see attachments) would implement the following:

- A. Amend current law providing the mechanism to reward informants.
- B. Increase rewards to persons who provide information on underpayment or underreported income. The reward would increase from up to 10 percent of the value of the underpaid or underreported amount to up to 15 percent.
- C. Prevent attorneys who have engaged in underpayment or underreporting from testifying before the Board.
- D. Require check cashers to notify the FTB of certain activities and penalize check cashers for a failure to provide that notification.

Staff Comment: While comprehensive in scope and mission, one component of the tax gap proposal raises concerns about appropriateness. With the informant reward program, it is unclear that incentivizing the turning in of one's neighbor to the tax authorities won't engender sufficient public distrust of the FTB that the \$800,000 in new revenues won't be partially or completely offset. There is little other state precedent for this program and the federal informant program (which is not publicized) has had limited success.

Staff Recommendations:

- A. Approve the budget change proposal with the informant award program removed (reduce Item 1730-001-0001 by \$292,000).
- B. Reject the trailer bill components that would implement the informant reward program (A and B described above).

Vote:

5. **Misdemeanor Program.** The Franchise Tax Board staff proposed to their Board, but subsequently withdrew, a proposal to establish a misdemeanor program in FTB's Investigations Bureau. The primary purpose of this program would be to step-up deterrence by prosecuting more errant taxpayers and publicizing the cases. This proposal would involve utilizing new technologies against the underground economy by focusing on taxpayers who participate in tax evasion and the underground economy but don't warrant felony prosecution.

The Franchise Tax Board proposed 14 positions and \$1,226,000 to implement this program. Anticipated revenues in the first year are \$2.5 million, rising to \$4-\$5 million in subsequent years.

Staff Comment: General budgeting practice is to fund revenue generating activities only to the extent the benefits are at least five times the cost. However, as the 4-1 benefit-cost ratio on the tax gap proposal above shows, this practice is not without exception. Other than the cost, there are other behavioral responses to factor in when evaluating new tax programs, including whether other taxpayers respond with greater or lesser compliance. With an informant reward program, greater compliance seems questionable. Misdemeanor prosecution of existing law, however, coupled with publicity of the cases, suggests a compliance effect that may exceed the objective 2-1 or 3-1 benefit-cost ratio.

Staff Recommendations:

- A. The Franchise Tax Board should report on the assumptions of compliance behind the misdemeanor program and the extent to which that increased compliance is reflected in the stated benefit-cost ratio.
- B. The Department of Finance and Franchise Tax Board should comment on the policy rationale for the 5-1 benefit-cost benchmark standard.

6. **Questionable Wage Withholding.** The Franchise Tax Board staff proposed to the Board, but subsequently withdrew, a proposal to establish a program to educate employees and employers about the withholding process and their responsibilities, and use existing enforcement authority to take involuntary action to change withholding allowances for those underwithholders. The program would focus on taxpayers who are habitual underwithholders, have significant balances due, and earn a majority of their income from wages.

The FTB estimates that 64,000 employers would be contacted to either provide copies of withholding documents or to change an employees withholding. The FTB expects that by contacting employers early to ensure that taxpayers are appropriately withheld throughout the tax year, they will dramatically reduce the need to issue approximately 30,000 annual wage levies to employers.

The proposed funding for this activity is \$1.5 million and 16 positions. Revenues in the budget year are estimated to be \$3 million, rising to \$35 million by 2007-08.

Staff Comment: Similar to the Misdemeanor Program described above, the first year revenues do not meet the 5-1 benefit-cost criteria. Again, however, the 2-1 return in the budget year does not quantify the compliance effects of this largely public education campaign. As noted above, subsequent year revenues are expected to be much higher, growing to above 23-1 by the third year.

Those additional out-year revenues could contribute significantly to solving the state's long-term structural deficit.

Staff Recommendation: Request that the Franchise Tax Board comment on the assumptions behind the revenue estimate, particularly what part of the revenue estimate is based on compliance improvements stemming from the education campaign.

- 7. Discovery Audits.** The Franchise Tax Board has historically utilized "Discovery Audits" to unearth valuable information in the areas of tax abuse and noncompliance. Discovery audits generally explore avenues of tax evasion that are new or not fully understood by the tax agency. Those findings are then referred to other auditing and collection programs that use that information to generate revenues many times the department's cost. Income underreporting, which accounts for 80 percent of the tax gap, is the primary focus of discovery efforts.

According to the LAO, in recent years the FTB's discovery audit resources have been diverted to combat the explosive growth of abusive tax shelters. In 1999-00, FTB spent 23,000 hours on discovery audits. In the current year, only 5,000 hours will be spent on that activity. Discovery audits do not generally reach the 5-1 benefit-cost ratio previously described.

Staff Comment: In response to questions from the staff and the LAO, the FTB has stated that it would require a total of 20 positions at a cost of \$1.7 million (full year costs) to fully implement a multidisciplinary compliance discovery program. At full implementation, the estimated revenues would be sufficient to cover the costs. The FTB reports that augmentations below 20 positions would still be beneficial, although fewer issues could be explored.

Staff Recommendation: Request that the FTB comment on the notable findings of past discovery audits, provide a refined revenue estimate for staffing a Discovery Audits Program at 20 positions, and articulate the assumptions behind that revenue estimate.

- 8. Property Tax Assistance Positions.** The Administration proposes to terminate the Senior Citizens' Property Tax Assistance Program, augment the Senior Citizens' Property Tax Deferral Program, and scale back the Senior Citizens' Renters Tax Assistance Program. The impact of these proposals on FTB is a reduction of 12 positions and \$575,000.

Staff Comment: The property tax and renters' assistance proposals are discussed under the 9100 Item (Tax Relief) later in this agenda.

Staff Recommendation: Consistent with the recommendations under the 9100 item, restore the 12 positions and \$575,000 General Fund.

Vote:

- 9. Utilization of Tax Expenditures.** Tax expenditures (also known as tax loopholes) are used by governments to address perceived inequities in the tax system and to provide incentives for behaviors that may not naturally occur with the existing tax system. California's tax expenditures encourage behavior among a broad range of entities, from rice straw growers to renters and students to stock owners. These tax credits are particular to California or they may also be "conforming" tax expenditures that extend federal tax expenditures to the state level (e.g., the student loan interest deduction).

As more tax expenditures are added and the economy evolves, the necessity for some tax expenditures becomes questionable. Tax expenditures reflect incentives at a point in time and may become less valuable, leading to a windfall situation for the eligible entity. In addition, tax

expenditures complicate the tax code and reduce policy flexibility, hindering the Legislature and Administration from taking corrective action or simplifying tax code. Furthermore, tax expenditures, by their nature, increase the general tax rate necessary to fund the operations of the state.

Staff Comment: The following three items provide examples of questionable tax expenditures:

A. Home Mortgage Interest Deduction. Both federal and state law allows individuals to deduct the interest paid on a home loan for their principal or secondary residence, subject to certain limitations. Interest is deductible on loans of up to \$1 million for first and second home loan purchases and up to \$100,000 on home equity loans.

The basis of this deduction has come under some scrutiny in recent years. One consideration is the effect that the deduction has on home prices in California. As homeowners know, the amount of the deduction can influence the amount of house they will purchase. With the savings from the deduction the buyer can purchase a relatively more expensive home than they otherwise would. When widely practiced, this behavior can lead to home prices creeping upward, a burgeoning problem in this state.

In the 2004-05 Analysis, the LAO suggested an option of limiting the deduction to \$600,000 on the first home only. The LAO estimated that the change would result in \$580 million in new revenues in the first year and \$525 million thereafter. A less dramatic alternative may be to limit the deduction to first homes only on a prospective basis.

B. "Water's Edge" Application: This tax expenditure allows unitary multinational corporations the option to compute income attributable to California on the basis of a water's edge (domestic) combined report, as opposed to a worldwide combined report. Under the water's edge application, a business elects to compute its California tax by reference to only the income and factors of a limited number of entities. Businesses will opt for either the water's edge or the worldwide income application for a seven year period. This commitment to a filing method is what creates the tax expenditure.

Recent bills have sought to amend the water's edge application and limit the offshoring of assets to avoid state taxes. A 2004 bill, AB 1571 (Alpert), proposed to clarify the water's edge application and prohibit a controlled foreign corporation from excluding its Subpart F income from a water's edge combined report, even if it is a California taxpayer or has income from a United States source. Existing law does not specify whether the United States-source income rules or the rules regarding "Subpart F" income, as defined in the Internal Revenue Code, apply to income of a controlled foreign corporation that has both United States-source income and Subpart F income.

C. Alternate Minimum Tax. The primary function of the state's alternative minimum tax (AMT) is to ensure that a base level of taxes is paid by businesses. This lower tax threshold, however, has been eroded by the proliferation of incentive-type tax credits to the point where some businesses are able to reduce their liability to below the AMT.

Staff Recommendation: The Franchise Tax Board should comment on the original rationale for these three tax expenditures, any statutory and constitutional considerations to amending them, and estimated revenue effects of

- (a) limiting the mortgage interest deduction to first homes on a prospective basis,
- (b) prohibiting Subpart F income on combined reports, and
- (c) limiting the use of business incentive tax credits to reduce regular tax below the AMT.

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security. Total proposed budget expenditures for the Department of General Services are \$970.2 million, of which \$250,000 is from the General Fund.

Summary of Expenditures (dollars in thousands)				
	2004-05	2005-06	\$ Change	% Change
Programs				
Building Regulation Services	\$145,946	\$220,462	\$74,516	51.1%
Real Estate Services	344,650	328,762	-15,888	-4.6
Statewide Support Services	417,798	397,668	-20,130	-4.8
Administration	35,714	36,274	560	1.6
Distributed Administration	-12,994	-12,994	0	0.0
Total, Programs	\$931,114	\$970,172	\$39,058	4.2%
Fund Source				
General Fund	\$15,000	\$250	-\$14,750	-98.3
State Emergency Telephone Number Account	152,902	144,894	-8,008	-5.2
State Motor Vehicle Insurance Account	28,455	29,248	793	2.8
Public School Planning, Design, & Construction Review Revolving	31,086	31,837	751	2.4
Architecture Revolving Fund	38,497	36,987		
Service Revolving Fund	630,125	696,658	66,533	10.6
2002 State Schools Facilities Fund	12,129	11,952	-177	-1.5
Other Funds	22,920	18,346	-4,574	-20.0
Total, Fund Source	\$931,114	\$970,172	\$39,058	4.2%

1. FINANCE LETTERS PROPOSED FOR CONSENT:

- A. Custodial and Maintenance Services:** The Administration proposes \$535,000 and 4.3 personnel years to allow the DGS to recover costs for operations and maintenance services provided to various client departments. Resources to reimburse the DGS are included in base budgets for the client departments.
- B. Prison Construction Inspection Staffing:** The Administration requests \$1,098,000 and 7.0 personnel years to allow the Department of General Services (DGS) to recover costs associated

with construction inspection services for the Department of Corrections, San Quentin. Resources to reimburse the DGS are included in the project budget.

- C. Stanford Mansion Operations and Maintenance:** The Administration requests \$334,000 and 4.7 personnel years to allow the DGS to recover costs for operations and maintenance services provided to the Department of Parks and Recreation (DPR) for the Stanford Mansion. Resources to reimburse DGS are included in the 2005-06 Governor's Budget in the DPR budget.
- D. Department of Transportation San Diego Office Building:** The Administration requests \$609,000 and 4.0 personnel years to allow the DGS to recover costs to operate and maintain the California Department of Transportation San Diego building which is scheduled for completion in June 2006. Resources to reimburse DGS are included in a corresponding Finance Letter for CalTrans.
- E. Local Assistance Seismic Grants – Reappropriation.** The City of Richmond has not advanced two seismic retrofit projects sufficiently such that current year costs will not be eligible for grant reimbursement. In response to the delays, the City of Richmond has adopted a new building process to enable completion of the two seismic retrofit projects in two years. An additional reappropriation would be necessary in 2006-07 to complete the projects.

The Administration requests that Item 1760-492 be added to reappropriate funding authorized by Proposition 122, the Earthquake Safety and Public Building Rehabilitation Bond Act of 1990. This item would reappropriate up to \$1,833,588 for two local seismic grants that were reappropriated by Item 1760-492, Budget Act of 2004.

1760-492—Reappropriation, Department of General Services. The balance, as of June 30, 2005, of the funds appropriated pursuant to Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-492, Budget Act of 2004 (Ch. 208, Stats. 2004), are reappropriated and shall be available for expenditure through June 30, 2007.

Schedule:

<i>(1) 3116-Richmond, Contra Costa –City Hall.....</i>	<i>1,149,975</i>
<i>(2) 3117-Richmond, Contra Costa –Hall of Justice</i>	<i>683,613</i>

Provisions:

- 1. After June 30, 2007, these funds will no longer be available for expenditure and shall not be reappropriated.*

- F. Property Acquisition Law Account and Asset Sales:** The Administration requests that Item 1760-001-0002 be revised by amending the Budget Bill and adding trailer bill language related to the Property Acquisition Law Money Account and the management of the state's real property assets. The proposal included in the 2005-06 Governor's Budget would have required surplus property to be listed in the Budget Bill. This revised request would retain the current process of using an annual bill to declare properties surplus.

1760-001-0002

Provisions:

- 1. Of the amount appropriated in the item, \$1,633,000 is a loan from the General Fund, provided for the purposes of supporting the management of the State's real property assets.*
- 2. Repayment of loans provided for the purposes of supporting the management of the State's real property assets shall be repaid within 60 days of the close of escrow from the sale of surplus property, pursuant to Government Code Section 11011.*
- 3. ~~The Director of General Services may sell, exchange, or lease for fair market value or upon those terms and conditions as the Director of General Services determines are in the best interest of the state, upon approval of a list of properties. To the extent that the annual surplus property~~*

listing enacted in separate legislation results in changes to workload related to management of the State's real property assets, the Director of Finance may adjust the amount of the General Fund loan and the total amount appropriated in this item not sooner than 30 days after notification has been provided to the Joint Legislative Budget Committee.

Staff Comment: The associated trailer bill language is included in the attachments section.

- G. Capital Outlay—Fund shift for Structural Retrofit of San Quentin Building 22.** The Administration requests to decrease General Fund support for the structural retrofit of the San Quentin Building 22 project by \$5 million and increase Earthquake Safety and Public Buildings Rehabilitation Fund support by an equivalent amount.
- H. Trailer bill: Cash Management Issues.** The Administration proposes to amend statute to conform with current practice on prepayments for centralized state services to other departments. Current practice requires departments to prepay full annual amounts due to central service agencies (e.g. DGS) at the beginning of a 12-month period. In previous years, departments made quarterly or monthly payments to DGS for services, however, initial capital needs and reconciliation problems necessitated departments providing the full amount to DGS at the beginning of the year. Departments may and do receive return advances when requested. DGS would still be subject to SCO audit authority.

Trailer bill is as follows:

SECTION 1. Section 11260 of the Government Code is amended to read:
 11260. After work is performed, services are rendered or materials or equipment are furnished pursuant to advances or transfers made under Sections 11257 and 11258, the State Controller shall ~~process adjust his accounts relating to said advances or transfers to provide for the~~ *crediting from time to time as requested by the state agency who performed the work. of funds or appropriations as set forth in Section 11259.* Any agency receiving an advance or transfer under Sections 11257 or 11258 shall remain fully accountable ~~therefor therefore~~ to the State Controller who shall audit as provided in Section 12410. ~~and apply expenditures in reduction of the applicable advance or transfer.~~

Staff Recommendation: Approve the Finance Letter issues A through H identified above.

Vote:

- 2. Budget Change Proposal: Central Plant Water Quality Monitoring.** The Department of General Services requests an ongoing augmentation of \$210,000 to fund monitoring and permit fees relating to the operation of the Department's Central Plant at 625 Q Street in Sacramento. This facility provides heating and cooling to 23 downtown Sacramento buildings.

Staff Comment: Based on discussions and information provided, the ongoing regulatory compliance workload becomes uncertain after 2006-07. Factors such as the central heating and cooling plant renovation, research findings on the Department's water quality monitoring responsibilities, and other evolving environmental compliance requirements could significantly alter the Department's workload for this activity.

Staff recommendation: Amend the budget change proposal to fund the water quality monitoring on a two-year limited term basis.

Vote:

- 3. Office of State Publishing Reduction.** The Administration proposes a reduction of \$6.2 million and 120 positions at DGS' Office of State Printing (OSP). This proposed reduction follows declining state

agency printing contracts and a statewide shift to more digital technology printing and Internet publishing. The OSP has incurred \$14.3 million in losses over the last ten years, including a \$5.5 million loss in 2003-04 (a 27 percent revenue decrease). The department explains that the OSP's broad range of products preclude it from tailoring services and force it to charge non-competitive rates. These rates naturally drive state agencies to use outside vendors. Under this proposal, "core" OSP services to the Legislature and other state agency clients would be preserved.

In a related proposal, the Administration proposes to extend for one year the requirement that state agencies also request a bid from OSP when seeking services that the OSP currently provides. The Subcommittee adopted this language (for one year) during last year's budget hearings.

SECTION 1. Section 14612.2 of the Government Code is amended to read:

14612.2. (a) Notwithstanding Chapter 7 (commencing with Section 14850) of Part 5.5 of Division 3 of Title 2 of, or Section 14901 of, the Government Code, no agency is required to use the Office of State Publishing for its printing needs and the Office of State Publishing may offer printing services to both state and other public agencies, including cities, counties, special districts, community college districts, the California State University, the University of California, and agencies of the United States government. When soliciting bids for printing services from the private sector, all state agencies shall also solicit a bid from the Office of State Publishing when the project is anticipated to cost more than five thousand dollars (\$5,000).

(b) This section shall remain operative only until the effective date of the Budget Act of ~~2005-2006~~ or July 1, ~~2005~~ 2006, whichever is later, and as of January 1, ~~2006-2007~~, is repealed, unless a later enacted statute that is enacted before January 1, ~~2006~~ 2007, deletes or extends the dates on which it becomes inoperative and is repealed.

Staff Comment: In analyzing this proposal it was learned that an operating expense reduction that would normally accompany a staff reduction had been omitted from the proposal. Specifically, the general expense category did not show a corresponding reduction associated with the positions. To reflect this reduction fully and accurately, an additional reduction of \$60,000 should be included.

Staff Recommendation: Approve the budget change proposal with an amendment to reflect an additional reduction of \$60,000 in general expense. (Reduce Item 1760-001-0666 by \$60,000)

Vote:

4. **Video News Releases.** DGS provides video production and other related services, such as billing, voice-over, and distribution to other state departments, often at rates well below private sector costs.

A recent addition to the department's video production services has been the creation of video news releases (VNRs). Since December 2004, the Department of General Services has provided a centralized service for the production of VNRs for all state agencies. As of mid-March, DGS had provided voice-over services for five VNRs, including two non-DGS produced VNRs, and with more in the pipeline. Total DGS costs were \$9,202 for the five VNRs.

Staff Comment: The production of VNRs to advocate for proposed regulations or other policy changes not already in statute raises serious concerns regarding the appropriate use of public funds. Specifically, the tenor and timing of VNRs cannot legally be such that it constitutes a promotional or lobbying effort, as that would constitute an invalid use of public funds. In the absence of clear statutory authority for the production and utilization of VNRs, it appears that the state will expose itself to litigation by continuing that activity.

In discussions with the department, it was explained that a single employee facilitates the VNR services for DGS and other departments. This employee is an exempt position with the title of

“Assistant Director, Public Affairs” and is paid at a salary of \$88,000/year.

Staff Recommendations:

- A. Delete the Assistant Director position and associated staff benefits and operating expense (savings of approximately \$135,000).
- B. Request that DGS explain their rationale for establishing a VNR production service and clarify the legal boundaries for the production of VNRs.

5. **Reduce Travel Costs by Booking Online:** The Governor’s California Performance Review (CPR) provided a recommendation that DGS should: (1) establish new travel policies to limit travel agents, book online, and find best possible fare and (2) advantage of deals offered in Southwest’s SWABIZ program and United Airlines Travel Program (UTAP) for business customers. Estimated savings for these changes are \$14.9 million annually, based on shifting to making 80 percent of bookings online and saving 30 percent on online fares.

Subsequent to the release of the CPR, DGS initiated a pilot project to study the savings that could be achieved by shifting more bookings to SWABIZ online. During two three-month phases studying contract fares versus SWABIZ fares over 1,200 flight segments (one-way of a flight), it was noticed that significant savings could be had. Specifically, the DGS has estimated that based on the 134,000 transactions executed in 2004, a potential \$7.1 million in savings could be generated.

Staff Comment: Without a consistent approach to airline bookings, the state is subject to unnecessarily high costs for tickets. Furthermore, with department budgets built with a blanket travel sum, if that amount happens to be generous, saving on flight costs may not be a high departmental priority. An online filing directive, coupled with an economical airline, seems a prudent first step in minimizing travel costs.

Staff Recommendations:

- A. Request that the department quantify costs and describe changes to departmental procedures needed to generate the estimated \$7.1 million in savings.
- B. It is further requested that the department comment on:
 - (1) the revenue difference between the CPR proposal and findings of the pilot, and
 - (2) the possibility that SWA frequent flier miles may be perceived as a gift of public funds, and,
 - (3) the potential for additional savings associated with utilizing the UTAP program and other business economy options.

6. **Clarifying Provisional Authority for Workload Adjustments.** The Department of General Services’ budget item 1760-001-0666 includes authority for the department to increase spending authority from their revolving funds in order to provide services or purchase equipment for departments. That expenditure authority is usually reflected in the DGS budget. However, on some occasions, DGS is not aware of the corresponding expenditure authority provided to the client department. On those occasions, DGS must utilize the authority provided in this budget item to accommodate the client department’s request.

According to DGS, as a service provider to other departments, there are times when they need to increase its expenditure authority to accommodate unanticipated department requests.

LAO Comment: Departments examine their workload on an annual basis. If workload has increased, then the department should request additional resources through the annual budget process. This process provides the Legislature with the opportunity to review the proposal and then make decisions on the proposal *before* the department has actually hired staff and increased

expenses. Under prior administrations, this was the practice, and DGS submitted workload growth requests through the annual budget process. Under the current administration, however, DGS has interpreted the budget provisions to allow anticipated workload growth increases. This interpretation unnecessarily limits the oversight role of the Legislature.

LAO Recommendation: It is important for DGS to be able to accommodate unanticipated department requests without delaying purchases or disrupting services. We also believe, however, that requests for anticipated workload should be provided during the annual budget process. In our view, DGS should follow the same process for anticipated workload growth increases as other departments. For this reason, we recommend that the Legislature clarify DGS' provisional authority to only authorize increases for unanticipated expenses.

Staff Comment: The following budget bill language will preserve DGS' authority, while clarifying that the provisions of item 1760-001-0666 should not be used for anticipated expenses. In addition, staff notes that the reporting requirements contained in provision 6 of item 1760-001-0666 do not currently require sufficient information for appropriate Legislative review and should be amended as displayed below.

Provisions 3, 4, and 6 of Budget Item 1760-001-0666:

3. The Director of General Services may augment this item or any of Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602, by up to an aggregate of 10 percent in cases where (a) the Legislature has approved funds for a customer for the purchase of services or equipment through the Department of General Services (DGS) and the corresponding expenditure authority has not been provided in this item or (b) a local government entity or the federal government has requested services from the DGS. Any augmentation that is deemed necessary on a permanent basis shall be submitted for review as part of the normal budget development process. If the Director of the Department of General Services augments this item or Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602, the DGS shall notify the Department of Finance within 30 days after that augmentation is made as to the amount, justification, and the program augmented. Any augmentation made in accordance with this provision shall not result in an increase in any rate charged to other departments for services or the purchase of goods without the prior written consent of the Department of Finance. *The Director of General Services shall not use this provision to augment this item or Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602 for costs that the DGS had knowledge of in time to include in the May Revision.*

4. If this item or Item 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602, is augmented pursuant to Provision 3 by the maximum allowed under that provision, the Director of Finance may further augment the item or items in cases where (a) the Legislature has approved funds for a customer for the purchase of services or equipment through the DGS and the corresponding expenditure authority has not been provided in this item or (b) a local government entity or the federal government has requested services from the DGS. Any augmentation that is deemed to be necessary on a permanent basis shall be submitted for review as part of the normal budget development process. *The Director of Finance shall not use this provision to augment this item or Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602 for costs that the Departments of Finance or General Services had knowledge of in time to include in the May Revision.*

6. Any augmentation made pursuant to Provisions 3 and 4 of this item shall be reported in writing to the chairpersons of the fiscal committees of each house and the Chairperson of the Joint Legislative Budget Committee within 30 days of the date the augmentation is approved. This notification shall ~~identify the amount~~ *be provided in a format consistent with normal budget change requests, including the amount, identification of,* and justification for, the augmentation, and the program that has been augmented. Copies of the notification shall be provided to the Department of Finance.

Staff Recommendation: Amend provisions 3, 4, and 6 of Item 1760-001-0666 in accordance with the revisions above.

Vote:

7. **Lowering the State's Cost for Prescription Drugs:** In *The 2005-06 Budget: Perspectives and Issues*, the LAO focuses on about \$400 million of the State's \$4.2 billion in annual prescription drug purchases to identify areas where significant savings can be achieved. In general, the identified savings are achievable by increased collaboration among the Department of Corrections, DGS, University of California, and various health departments, in their practices of buying, delivering, and utilizing prescription drugs.

LAO Issue: State agencies purchase about \$4.2 billion annually in prescription and nonprescription drugs. These agencies purchase the drugs as part of their responsibilities to deliver health care services to their program recipients. For example, the Department of Mental Health (DMH) provides medications to patients residing in state hospitals. The Public Employees' Retirement System (PERS), as part of its health care coverage plans, pays for medications for public employees, their dependents, and retirees. Figure 1 identifies major state entities that purchase drugs, the primary recipients of those drugs, and the annual purchase amounts.

Figure 1

**Annual State Drug Purchases
2003-04^a**

(All Funds)

Entity	Drug Purchase Amount (In Millions)	Recipients Served
Medi-Cal	\$3,150.0b	Medi-Cal recipients
Public Employees' Retirement System	640.0	Public employees, dependents, and retirees
University of California	223.0	Students, clinics, and hospital patients
Corrections	128.5	Inmates
Mental Health	30.1	State hospital patients
Developmental Services	15.3	Developmental center residents
Alcohol and Drug Programs	4.5	Narcotics treatment clients
Veterans' Affairs	3.3	Veterans' home residents
California State University	2.0	Students
California Youth Authority	1.8	Wards
Total	\$4,194.0	

a Legislative Analyst's Office estimates based on the best available data.

b Net of rebates. Amount does not include Medi-Cal managed care drug expenditures.

According to the Congressional Budget Office, the growth in prescription drug costs has outpaced every other category of health expenditure. California, like all other states, has experienced this growth in prescription drug costs. According to a 2002 Bureau of State Audits review, the five state agencies that most frequently purchase drugs experienced an annual average increase of 34 percent in their drug costs from 1996 to 2001.

Our report identifies recent actions that have helped lower some drug costs, examines state agencies' purchasing practices, and makes recommendations for improving the state's costs for drug

purchases. The report focuses on the \$400 million in annual drug purchases which are most directly affected by the state's procurement and administrative operations.

Staff Comment: Key LAO concerns in procurement and administrative practices included:

- State Is Paying Non-Medi-Cal Drug Prices for Medi-Cal Patients
- DGS Not Providing Sufficient Leadership
- Insufficient Collaboration Among State Agencies
- Multiple Formularies Redundant
- CDC Pharmacy Operations Need Improvement

In working with departments, Legislative staff, and others, the LAO has provided the following six statutory and budget bill recommendations (A through F):

A. Require Collaboration Among State Drug Purchasers

(Adopt the following as trailer bill language)

It is the intent of the Legislature that the Department of General Services, University of California, and the Public Employees Retirement System share information on a regular basis with regards to each agency's drug purchasing activities. The sharing of information shall include, but is not limited to, prices paid for the same or similar drugs and information regarding drug effectiveness. It is the intent of the Legislature that the agencies meet, share information, and identify and implement joint cost savings activities that are mutually beneficial to the participating agencies. By January 10, 2006, and annually thereafter, the Department of General Services shall report to the Chairperson of the Joint Legislative Budget Committee and the chairs of the fiscal committees of both houses of the Legislature on the collaboration activities that the Department of General Services, University of California, and the Public Employees Retirement System conducted in the last 12 months and the savings attributable to joint drug cost savings from those activities. It is not the intent of the Legislature for the Department of General Services to disclose information which may adversely affect potential drug procurements conducted by the participating agencies.

B. Direct the University of California and DGS to Identify Consolidated Drug Purchasing Activities

(Adopt the following as trailer bill language)

The Department of General Services shall work with the University of California to identify opportunities for consolidating the drug purchases made by both agencies, in order to lower each agency's costs for prescription drugs. It is the intent of the Legislature that the University of California cooperates with the Department of General Services in these efforts.

C. Require DGS to Develop Annual Work Plan for Purchasing Drugs

(Adopt the following as trailer bill language)

The Department of General Services shall develop a work plan on an annual basis that includes, but is not limited to, a description of the department's annual activities to lower the state's costs for prescription drugs and the estimated savings that these activities are expected to achieve. The department shall use the work plan when reporting to the Legislature on estimated and achieved savings resulting from drug purchasing activities. It is not the intent of the Legislature for the department to include or disclose information which may adversely affect potential drug procurements.

D. Require DGS Participation in Drug Reviews

(Adopt the following as trailer bill language)

The Department of General Services shall participate in at least one independent group that develops information on the relative effectiveness of prescription drugs.

E. Direct DGS and CDC to Compare Potential Methods to Control Parolee Drug Costs

(Adopt budget bill language for Budget Item and 1760-001-0666. Department of Corrections budget item 5240-001-0001 will be separately amended)

It is the intent of the Legislature that the state provide parolee medications in the most cost-effective manner. In deciding how to purchase parolee medications, the Department of Corrections, in consolidation with the Department of General Services, shall consider, but not be limited to, contracting with a pharmacy benefits manager and purchasing medications under pharmacy contracts used for prison inmates. The department shall compare the cost of such options and choose the lowest cost option(s).

F. Increase DGS Staff in Order to Create More Drug Contracts

(These additional positions would consist of one Pharmaceutical Consultant II and two Associate Materials Analysts.)

Increase Budget Item 1760-001-0666 by \$306,000 and authorize three additional positions.

AB 76 (Frommer) was introduced this year to address many of the concerns identified in the *Perspectives and Issues* report. The bill seeks to create an Office of Pharmaceutical Purchasing in the Health and Human Services Agency, an office that would have the authority and duties to purchase prescription drugs for state agencies similar to the authority of DGS. If AB 76 should become chaptered, some of the statutory changes recommended by the LAO may no longer be necessary.

Chapter 409, Statutes of 2004 (AB 79, Dutra) placed a moratorium on several written reports to the Legislature until January 1, 2008. Included in the suspended reports is a requirement that DGS report on options and strategies related to prescription drug procurement, shown below as it appears in Government Code:

14981. On or before February 1, 2005, the department shall submit a report to the appropriate policy and fiscal committees of the Legislature on activities that have been or will be undertaken pursuant to this chapter. The report shall include, but not be limited to, all of the following:

- (a) The number and a description of contracts entered into with manufacturers and suppliers of drugs pursuant to Section 14977.1, including any discounts, rebates, or refunds obtained.
- (b) The number and a description of entities that elect to participate in the coordinated purchasing program pursuant to Section 14977.5.
- (c) Other options and strategies that have been or will be implemented pursuant to Sections 14978 and 14980.
- (d) Estimated costs and savings attributable to activities that have been or will be undertaken pursuant to this chapter.

Staff Recommendations:

- A. Adopt the budget and trailer bill language identified in LAO recommendations A through F, including the three position augmentation and \$306,000.
- B. Request the LAO and Finance identify the savings associated with these changes and report to the Subcommittee.
- C. Add the Government Code 14981 reporting language above to the provisions of 1760-001-0666, amended for reporting by February 1, 2006.

Vote:

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor's Budget proposed total expenditures of \$44.8 million (no General Fund) - an increase of \$99,000 from the current year.

1. **Licensing and Compliance System IT Project (FL #3).** The Department requests the following budget changes related to this IT project, which was approved by the Legislature with the 2004-05 budget:

- Revert project funding of \$961,000 (special fund) as of June 30, 2005.
- Augment 2005-06 project funding by \$710,000 (special fund).

The Licensing and Compliance System (Phase II) replaces a 1993 system which is nearing obsolescence. These budget changes are requested because the approved Feasibility Study Report anticipated an expedited procurement process, but the Department of General Services required a traditional procurement. The longer procurement means that ABC will not be able to encumber the funding before it reverts. This request does not change the total one-time project cost of \$2.0 million, it just adjusts the year of appropriation.

Staff Recommendation: Approve this request. This is a technical change which does not change the approved level of funding.

Vote:

ABC Issue for Discussion

1. **Office Renovations (BCP #1).** The Department requests a total of \$246,000 (special fund) in one-time funding - \$100,000 for renovations in the Van Nuys State Building and \$220,000 for renovations in the Santa Ana State Building. The request also includes headquarters office renovations and savings from new leases such that the request totals \$246,000. Improvements include new modular workstations as well as changes to doors and walls.

Staff Comment: This issue was previously heard at the March 2 Subcommittee hearing. At the hearing, ABC indicated that it would be their preference to move to other facilities, however, the Department of General Services (DGS) requires the identification a replacement tenant as a condition of the move and no replacement tenants have been identified. This issue was held open and placed in this hearing with the DGS budget so DGS would be available to testify on this issue.

DGS Response: In response to questions from staff, DGS indicates these state-owned facilities are in "good operating condition." DGS states it is acting in compliance with the State Administrative Manual Section 1310.3, which says "Existing state-owned or state-controlled space will be utilized before the leasing of additional space is considered." DGS has been working with ABC for five years to find a replacement for the Santa Ana facility.

Discussion Questions: The Subcommittee may wish to ask DGS and ABC the following questions:

DGS – What further efforts can DGS make to find a backfill tenant for ABC and then find more suitable office space for ABC? What is the prospect for success?

ABC – If the BCP for Office Renovations is approved, will ABC continue to request to move into new office facilities?

Staff Recommendation: Approve the BCP request.

Vote:

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief proposed in 2005-06 totals \$539.4 million, all of which is General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Senior Citizens' Property Tax Assistance	40,494	0	-\$40,494	-100.0%
Senior Citizens' Property Tax Deferral	\$11,900	\$16,600	4,700	39.5
Senior Citizen Renters' Tax Assistance	142,636	42,507	-100,129	-70.2
Homeowners' Property Tax Relief	433,200	440,000	6,800	1.6
Subventions for Opens Space ("Williamson Act")	39,388	39,661	273	0.7
Substandard Housing	0	0	0	0.0
Vehicle License Fee Offset	0	0	0	0.0
State-Mandated Local Programs	0	658	658	0.0
Total, Programs	\$667,618	\$539,426	-\$128,192	-19.2%
Fund Source				
General Fund	\$667,618	\$539,426	-\$128,192	-19.2
Total, Fund Source	\$667,618	\$539,426	-\$128,192	-19.2%

- 1. Senior Citizens' Property Tax Assistance and Senior Citizens' Property Tax Deferral.** The Administration proposes to eliminate the Senior Citizens' Property Tax Assistance Program, a reduction of approximately \$40 million, and partially offset that reduction by expanding the Senior Citizens' Property Tax Deferral Program. The net budget savings are \$35.7 million. Based on participation in 2003-04, this reduction will affect 156,000 seniors, blind, and disabled. The Administration would raise the income threshold for the Senior Citizens' Property Tax Deferral Program to \$39,000 to capture some of the individuals who lost property tax assistance.

The Department of Finance has provided trailer bill language that would implement these provisions (see attachment).

Staff Comment: The understood intent of the change is to shift from state grants to a long-term property tax deferment program. By participating in the deferment program, the state places a lien on the home to be paid after the owner and his/her spouse passes on.

The LAO has raised concerns about the shift over to the deferral program. Specifically, additional participation from those currently in the property tax assistance program is highly uncertain. The LAO notes that assume only 5 percent (7,826) of those participating in the Senior Citizen Property Tax Assistance Program choose to participate in the deferral program, there would be additional costs of over \$10 million.

In a separate budget development that affects many of the same recipients of the property tax assistance, the Governor's Budget proposes to eliminate both the state and federal cost-of-living adjustments (COLAs) to SSI/SSP grants. Consequently, the proposed reductions in homeowners and renters assistance will result in an overall reduction in total income to SSI/SSP beneficiaries who have no other sources of support.

Staff further notes that senior and disabled homeowners with incomes under \$24,000 (or \$34,000 in some cases) already qualify for both the assistance and deferral programs (the assistance payments reduce the amount of the lien). For these homeowners, the budget proposal means not an even exchange, but an erosion of state support.

Staff Recommendations:

- A. Restore the Senior Citizen's Property Tax Assistance Program, (augment Item 9100-101-0001 by \$40.5 million).
- B. Reject the trailer bill language.
- C. Reduce the Senior Citizen's Property Deferral Program by \$4.7 million to reflect funding aligned with prior year participation rates.

Vote:

2. **Senior Citizens Renters' Assistance.** The Administration proposes to reduce benefits to seniors participating in the Senior Citizens Renters' Tax Assistance Program by \$100.1 million, scaling back benefits to 1998 levels. The Department of Finance has provided trailer bill that would implement these provisions (see attachment).

Staff Comment: The Administration's proposal would lower eligibility to the Senior Citizens Renters Tax Assistance from persons making \$37,300/year to those making \$13,200/year—slightly above the federal poverty line for a family of two.

Unlike the property tax deferment proposal, the Governor's Budget does not include any other program expansion to offset portions of this reduction. However, some senior and disabled renters who have enough income to have a state income tax liability would continue to be eligible to claim the Renters' Credit on their income tax return. The Renters' Credit is \$60 (single) or \$120 (married) and is available to renters with incomes up to about \$30,000 (single) or \$60,000 (married). However, many low-income seniors and disabled persons have no state income tax liability or too little liability to obtain the full benefit of the Renters' Credit.

Similar to the property tax assistance recipients, the proposed reductions in renters' assistance will result in an overall reduction in total income to SSI/SSP beneficiaries who have no other sources of support.

Staff Recommendation:

- A. Restore Senior Citizen Renters' Assistance Program to the level it otherwise would have been budgeted without the Governor's reduction proposal (augment Item 9100-101-0001 by \$100.1 million).
- B. Reject the associated trailer bill language.

Vote:

3. **County Auditor Redevelopment Tax Report Mandate.** In accordance with Chapter 1124, Statutes of 2002 (AB 3000, Budget Committee), the LAO has reviewed the new mandate entitled "Redevelopment Agencies—Tax Disbursement Reporting."

LAO Comment: State law requires redevelopment agencies to deposit 20 percent of their tax increment revenues into Low and Moderate Income Housing Funds and use these monies to develop affordable housing. In 1997, the Legislature's Task Force on Redevelopment Agencies' Affordable Housing Reports concluded that it was difficult for private and public agencies to monitor redevelopment agency compliance with this state law because data regarding tax increment revenues were not readily available. To address this problem, the Legislature enacted Chapter 39, Statutes of 1998 (SB 258, Kopp), requiring county auditors to prepare annual tax disbursement statements for each redevelopment agency project area.

In November 2002, the CSM determined that county auditor work to prepare these tax statements was a state-reimbursable mandate and estimated the statewide cost of this mandate to be \$65,300 (for costs through 2004-05).

LAO Recommendation: The State Controller's Office (SCO) annually publishes detailed reports on the financial transactions of redevelopment agencies, including all information that Chapter 39 requires county auditors to report. Because other sources of data regarding redevelopment tax increment revenues have become readily available in recent years, we recommend the Legislature repeal this mandate by deleting the requirement that auditors prepare these reports.

Staff Recommendation: Adopt the LAO's recommendation and direct the LAO to prepare repeal language for inclusion in the Budget Bill.

Vote:

Proposed Control Section 8.53

1. **Notice of Federal Audits.** The federal government periodically audits states to verify that federal funds are appropriately utilized. When their audits find ineligible or inappropriate expenditures, the federal government releases a draft audit describing the reasons for and amount of reduction to the Administration alone. Under current practice, the Legislature is notified of the amounts of audited reductions only after budget reductions have occurred.

Staff Comment: A recent federal audit of Medi-Cal expenditures resulted in a more than \$5 million General Fund reduction to the current year budget. Based on recent federal trends, the frequency of audits is expected to grow, particularly in the area of Medi-Cal expenditures.

In order to keep the Legislature abreast of current year budget developments and enable appropriate oversight on the use of federal funds, it is recommended that departments provide the Joint Legislative Budget Committee with copies of draft and final audits.

Staff Recommendation: Adopt Control Section 8.53 with the following language.

It is the intent of the Legislature that changes to the enacted budget be communicated to the Legislature in a timely manner. Notwithstanding any other provision of law, issuance of draft and final federal audits shall be provided to the Chairperson of the Joint Legislative Budget Committee not less than 10 days after any state agency, department, or other state entity receives a copy of that federal audit. Notification shall include a copy of a draft or final federal audit.

Vote:

Control Section 33.50

Strategic Sourcing Initiative. Control Section 33.50, the statewide authority for “strategic sourcing” would renew the Administration’s efforts to leverage the State’s buying power to facilitate bulk purchasing. The Administration’s strategic sourcing concept involves analyzing what the state is buying, market conditions, and potential suppliers.

The Administration proposes to extend the “Strategic Sourcing” initiative and generate \$96 million in savings in 2005-06. This target is the same amount originally budgeted for the current year, but was later revised down to \$48 million.

The Department of Finance has provided related trailer bill language. This language would streamline reporting to the Legislature on contract award information (e.g., whether the firm is operated by a disabled veteran, the race of the awardee, the gender of the awardee, etc.) by utilizing centralized technologies to gather that information.

Staff Comment: Control Section 33.50 language in the 2004 Budget Act requires reporting to the Legislature before appropriations may be adjusted. This reporting language does not appear in the Budget Bill for 2005-06. The Department of Finance has acknowledged this inadvertent omission and suggested the following amendment:

SEC. 33.50. Notwithstanding any other provision of law, the Director of Finance is authorized to reduce amounts in items of appropriation in this act for the 2005-06 fiscal year to reflect savings resulting from California's Procurement Initiative for the 21st Century. At least 30 days prior to the reduction of any item of appropriation, the Director shall notify the Joint Legislative Budget Committee identifying the amounts that will be set-aside prior to the availability of actual savings data. This information shall be revised and updated to reflect actual savings data at the time of the May Revision.

In a separate Governor’s Budget savings proposal, the Administration proposes to make unallocated reductions totaling \$150 million across several departments. According to the Governor’s Budget summary, “procurement reductions” (page 198) are a valid means for a department to meet the unallocated reduction requirements, suggesting that double counting of strategic sourcing savings may occur.

Staff Recommendation:

- A. Adopt the amended budget bill language.
- B. Adopt the proposed trailer bill language.
- C. The Department should also report to the Committee:
 - (1) The latest estimate of current year savings and efforts made to prevent overstatement of savings in the current year.
 - (2) The new strategic sourcing practices or changes that will generate twice as much savings as the current year.
 - (3) Safeguards in place to prevent double counting in the budget year (e.g. counting unallocated reductions as strategic sourcing savings).

Vote:

TRAILER BILL

Franchise Tax Board Trailer Bill: Tax Gap Enforcement

Section 1789.30 of the Civil Code is amended to read:

1789.30. (a)(1) Every check casher, as applicable to the services provided, shall post a complete, detailed, and unambiguous schedule of all fees for (1) cashing checks, drafts, money orders, or other commercial paper serving the same purpose, (2) the sale or issuance of money orders, and (3) the initial issuance of any identification card. Each check casher shall also post a list of valid identification which is acceptable in lieu of identification provided by the check casher. The information required by this section shall be clear, legible, and in letters not less than one-half inch in height. The information shall be posted in a conspicuous location in the unobstructed view of the public within the check casher's premises.

(2) Every check casher that cashes checks totaling more than ten thousand dollars (\$10,000) in either one transaction or two or more transactions for the same person within the calendar year shall file the report required by Section 18631.7 of the Revenue and Taxation Code.

(b)(1) Except as provided in paragraph (2), this This section shall become operative December 31, 2004.

(2) Paragraph (2) of subdivision (a) shall be operative for checks cashed on or January 1, 2006.

Section 18631.7 is added to the Revenue and Taxation Code to read:

18631.7. (a) Any check casher engaged in the trade or business of cashing checks that, in the course of that trade or business, cashes checks totaling more than ten thousand dollars (\$10,000) in one transaction or two or more transactions for the same person within the calendar year, shall file a report with respect to that transaction or transactions with the Franchise Tax Board.

(b) The report required in subdivision (a) shall be filed no later than 90 days after the end of the calendar year and in the form and manner prescribed by the Franchise Tax Board, and shall, at a minimum, contain:

(1) The name, address, taxpayer identification number, and any other identifying information of the person presenting the check that the Franchise Tax Board deems necessary, and

(2) The amount and date of the transaction or transactions.

(c) For purposes of this section:

(1) "Check casher" as used in this section means any person as defined under Section 1789.31 of the Civil Code.

(2) "Checks" includes warrants, drafts, money orders, and other commercial paper serving the same purpose.

(d) A person that fails to file a report required by this section shall be subject to the same civil and criminal sanctions applicable to a person that fails to file a return under Section 6050I of the Internal Revenue Code.

Section 19523.5 is added to the Revenue and Taxation Code to read:

19523.5. (a) If the Secretary of the Treasury has, under the authority of Section 330(b) of Title 31 of the United States Code, suspended or disbarred a person from practice before the Department of the Treasury, the Franchise Tax Board shall, after notice and opportunity for a

proceeding, suspend or disbar that person from practice before the Franchise Tax Board during the period of federal suspension or disbarment, unless the action of the Secretary of the Treasury was clearly erroneous.

(b) For purposes of this section:

(1) "Practice" or "practices" means all matters connected with a presentation to the Franchise Tax Board or any of its officers or employees relating to a taxpayer's rights, privileges, or liabilities under laws or regulations administered by the Franchise Tax Board.

(2) "Presentations" means, but is not limited to, preparing and filing documents, corresponding and communicating with the Franchise Tax Board, and representing a client at conferences, hearings, and meetings.

(c)(1) Every person who practices before the Franchise Tax Board and is suspended or disbarred from practice before the Department of the Treasury shall notify the Franchise Tax Board in writing within forty-five days of the issuance of a final order disbaring or suspending the person pursuant to Section 10.80 of Title 31, Code of Federal Regulations, Subtitle A, Part 10, revised as of July 26, 2002.

(2) Any person that fails to notify the Franchise Tax Board pursuant to paragraph (1) shall be subject to a penalty of \$5,000.

(d) The written notice required by subdivision (c) shall concede the accuracy of the federal action or state why it is clearly erroneous.

(e) Any person that has been suspended or disbarred from practice before the Franchise Tax Board may seek review of that determination by bringing an action pursuant to Section 1085 of the Code of Civil Procedure.

(f) The Franchise Tax Board may prescribe any regulations necessary to carry out the purposes of this section.

(g) This section shall be effective for final federal orders of disbarment or suspension issued on or after the enactment date of this act.

Section 19525 of the Revenue and Taxation Code is amended to read:

19525. ~~(a) The Franchise Tax Board, under regulations prescribed by the Franchise Tax Board may establish a reward program for information resulting in the identification of the following:~~

~~(1) Underreported or unreported income subject to taxes imposed by Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001).~~

~~(2) Violations (including conspiracies to violate) described in Chapter 9 (commencing with section 19701) of this part. Any reward may not exceed 10 percent of the taxes collected as a result of the information provided. Any person employed by or under contract with any state or federal tax collection agency shall not be eligible for a reward provided for pursuant to this section.~~

~~(b) The rewards provided under this section will be paid from the proceeds of amounts, other than interest, collected as a direct result of the information provided.~~

~~(c) Proceeds of amounts, other than interest, collected as a direct result of the information provided includes both:~~

~~(1) Additional amounts collected as a direct result of the information provided, and~~

~~(2) Amounts collected prior to receipt of the information if the information leads to the denial of a claim for refund that otherwise may have been paid.~~

~~(d) (1) Any person, other than a person described in paragraph (2), that submits, in the manner described in subdivision (f), information relating to underreporting, nonreporting, or a violation described in subdivision (a), is eligible to file a claim for reward under this section.~~

~~(2) No person who was a member, officer, agent, or employee of the Franchise Tax Board, the State Board of Equalization, the Employment Development Department, or the United States Department of the Treasury at the time the individual came into possession of information relating to the violations, or at the time the individual divulged such information, is eligible for a reward under this section.~~

(3) A claim for reward may be filed by an executor, administrator, or other legal representative on behalf of a deceased informant if, prior to the informant's death, the informant was eligible to file a claim for reward under this section.

(e)(1) All relevant factors, including the value of the information furnished in relation to the facts developed by the investigation of the underreporting, nonreporting, or violation, will be taken into account in determining whether a reward will be paid, and if so, the amount of the reward.

(2) The amount of the reward will represent what the Franchise Tax Board deems to be adequate compensation in the particular case, not to exceed 15 percent of the amounts, other than interest, collected (or in the case of a refund claim, retained) by reason of the information.

(3) Payment of a reward will be made as promptly as the circumstances of the case permit, but not until the taxes, penalties, or fines involved have been collected in full (or in the case of a refund claim, its final resolution). However, if the informant waives any claim for reward with respect to an uncollected portion of the taxes, penalties, or fines involved, the claim for reward may be immediately processed.

(4) Partial reward payments, without waiver of the uncollected portion of the taxes, penalties, or fines involved, may be made when a criminal fine has been collected prior to completion of the civil aspects of a case, and also when there are multiple tax years involved and the deficiency for one or more of the years has been paid in full.

(5) No person is authorized under this section to make any offer or promise, or to otherwise bind the Franchise Tax Board, with respect to the payment of any reward or the amount of the reward.

(f) A person desiring to claim a reward under this section must submit information relating to underpayment or underreporting (or improper refund claim) in a form and manner to be determined by the Franchise Tax Board.

(g) A person desiring to claim a reward under this section must file a formal claim in a form and manner to be determined by the Franchise Tax Board.

(h) No unauthorized person will be advised of the identity of an informant.

(i) The Franchise Tax Board may prescribe any regulations necessary to carry out the purposes of this section.

(j) The Franchise Tax Board shall determine the amount of rewards incurred pursuant to this section and notify the Controller of that amount which shall be transferred from the Personal Income Tax Fund or the Corporation Tax Fund to the Franchise Tax Board for reimbursement of rewards paid pursuant to this section.

Department of General Services Trailer Bill: Property Acquisition Law and Surplus Property

SECTION 1. Section 11011 of the Government Code is amended to read:

11011. (a) On or before December 31st of each year, each state agency shall make a review of all proprietary state lands, other than tax-deeded land, land held for highway purposes, lands under the jurisdiction of the State Lands Commission, land that has escheated to the state or that has been distributed to the state by court decree in estates of deceased persons, and lands under the jurisdiction of the State Coastal Conservancy, over which it has jurisdiction to determine what, if any, land is in excess of its foreseeable needs and report thereon in writing to the Department of General Services. These lands shall include, but not be limited to, the following:

(1) Land not currently being utilized, or currently being underutilized, by the state agency for any existing or ongoing state program.

(2) Land for which the state agency has not identified any specific utilization relative to future programmatic needs.

(3) Land not identified by the state agency within its master plans for facility development.

(b) Jurisdiction of all land reported as excess shall be transferred to the Department of General Services, when requested by the director thereof, for sale or disposition under this section or as may be otherwise authorized by law.

(c) The Department of General Services shall report to the Legislature annually, the land declared excess and request authorization to dispose of the land by sale or otherwise.

(d) The Department of General Services shall review and consider reports submitted to the Director of General Services pursuant to Section 66907.12 of the Government Code and Section 31104.3 of the Public Resources Code prior to recommending or taking any action on surplus land, and shall also circulate the reports to all agencies that are required to report excess land pursuant to this section. In recommending or determining the disposition of surplus lands, the Director of General Services may give priority to proposals by the state that involve the exchange of surplus lands for lands listed in those reports.

(e) Except as otherwise provided by any other provision of law, whenever any land is reported as excess pursuant to this section, the Department of General Services shall determine whether or not the use of the land is needed by any other state agency. If the Department of General Services determines that any land is needed by any other state agency it may transfer the jurisdiction of this land to the other state agency upon the terms and conditions as it may deem to be for the best interests of the state.

(f) When authority is granted for the sale or other disposition of lands declared excess, and the Department of General Services has determined that the use of the land is not needed by any other state agency, the Department of General Services shall sell the land or otherwise dispose of the same pursuant to the authorization, upon any terms and conditions and subject to any reservations and exceptions as the Department of General Services may deem to be for the best interests of the state. The Department of General Services shall report to the Legislature annually, with respect to each parcel of land authorized to be sold under this section, giving the following information:

(1) A description or other identification of the property.

(2) The date of authorization.

(3) With regard to each parcel sold after the next preceding report, the date of sale and price received, or the value of the land received in exchange.

(4) The present status of the property, if not sold or otherwise disposed of at the time of the report.

(g) Except as otherwise specified by law, ~~moneys~~ *net proceeds* received from any *real* property disposition, including the sale, lease, exchange, or other means, that is received pursuant to this section shall be paid into the ~~General Fund~~ *Deficit Recovery Bond Retirement Sinking Fund Subaccount (Article XVI, sec. 20(f))*, until such time when the bonds issued pursuant to the *Economic Recovery Bond Act*,

approved by the voters at the March 2, 2004 statewide primary election and Title 18 of the California Government Code, are retired. Thereafter, net proceeds received pursuant to this section shall be deposited in the Special Fund for Economic Uncertainties.

For purposes of this section, net proceeds shall be defined as ~~gross~~ proceeds less ~~all costs directly~~ any outstanding loans from the General Fund to the Property Acquisition Law Money Account or outstanding reimbursements due the Property Acquisition Law Money Account for costs incurred prior to June 30, 2005, related to the completion of the transaction including, but not limited to, selling costs, transfer fees, commissions, and costs incurred by the Department of General Services management of the State's real property assets including but not limited to surplus property identification, legal research, feasibility statistics, activities associated with land use, and due diligence.

(h) The Director of Finance may approve loans from the General Fund to the Property Acquisition Law Money Account, which is hereby created in the State Treasury, for the purposes of supporting the management of the State's real property assets.

~~—(h) (i) Any rentals or other revenues received by the department from real properties, the jurisdiction of which has been transferred to the Department of General Services under this section, shall be deposited in the Property Acquisition Law Money Account and shall be available for expenditure by the Department of General Services upon appropriation by the Legislature. General Fund in the account established by Section 15863. Any expenditures required to maintain, repair, care for, and sell this real property shall be paid from the appropriation made by Section 15863.~~

~~—(i) (j) Nothing contained in this section shall be construed to prohibit the sale, letting, or other disposition of any state lands pursuant to any law now or hereafter enacted authorizing the sale, letting, or disposition.~~

~~—(j) (k) This section shall be inoperative for the period commencing with the effective date of the act that added this subdivision, until July 1, 2005, with the exception of sections (g) through (j), which shall take effect retroactively, beginning November 3, 2004.~~

SECTION 2. Section 11011.21 of the Government Code is amended to read:

11011.21. (a) The Legislature finds and declares that the Department of General Services has, pursuant to former Section 11011.21, as added by Section 8 of Chapter 150 of the Statutes of 1994, and amended by Section 15 of Chapter 422 of the Statutes of 1994, developed an inventory, known as the Surplus Property Inventory, of state-owned properties that are either surplus to the needs of the state in their entirety or are being used for a state program and some portions of the property are unused or underutilized.

b) State agencies, when purchasing real property, shall review the Surplus Property Inventory and purchase, lease, or trade property on that list, if possible, prior to purchasing property not on the Surplus Property Inventory.

c) The Department of General Services may sell, lease, exchange, or transfer for current market value, or upon terms and conditions as the Director of General Services determines are in the best interest of the state, all or part of properties as follows:

Parcel 1. Approximately 292 acres with improvements thereon, known as the Agnews Developmental Center-West Campus, bounded by Lick Mill Blvd., Montague Expressway, Lafayette Street and Hope Drive, in Santa Clara, Santa Clara County.

Parcel 2. Approximately 56 acres known as a portion of the Agnews Developmental Center-East Campus, located between the Agnews Developmental Center and Coyote Creek, in San Jose, Santa Clara County.

Parcel 3. Approximately 102 acres with improvements thereon, known as the Stockton Developmental Center, located at 510 E. Magnolia Street, in Stockton, San Joaquin County.

Parcel 6. Approximately 33.56 acres with improvements thereon, known as the California Highway Patrol Motor Transport Facility and Shop, located at 2800 Meadowview Road, in Sacramento, Sacramento County.

Parcel 7. Approximately 1.03 acres of land, not including improvements thereon, located at 1614 O Street, in Sacramento, Sacramento County, and leased by the Department of General Services to the Capital Area Development Authority for development of the 17th Street Commons condominiums.

Parcel 8. Approximately 2 acres of land, not including improvements thereon, located on a portion of block 273 bound by 10th, 11th, P, and Q Streets, in Sacramento, Sacramento County, and leased by the Department of General Services to the Capital Area Development Authority for development of the Somerset Parkside condominiums.

Parcel 9. Approximately 1.76 acres of land, not including improvements thereon, located on the south 1/2 of block bound by 15th, 16th, O, and P Streets and the south 1/4 of block bound by 14th, 15th, O, and P Streets, in Sacramento, Sacramento County, and leased by the Department of General Services to the Capital Area Development Authority for development of the Stanford Park condominiums.

Parcel 10. Approximately 1.18 acres of land, not including improvements thereon, located on the north 1/2 of block bound by 9th, 10th, Q, and R Streets, in Sacramento, Sacramento County, and leased by the Department of General Services to the Capital Area Development Authority for development of the Saratoga Townhomes.

Parcel 11. Approximately 3.66 acres including improvements thereon, known as the Department of General Services, Junipero Serra State Office Building, located at 107 S. Broadway, in Los Angeles, Los Angeles County.

Parcel 12. Approximately 32 acres including improvements thereon, being a portion of the State Department of Developmental Services Fairview Developmental Center, located at 2501 Harbor Blvd., in Costa Mesa, Orange County.

Parcel 13. Approximately 3.6 acres, with improvements thereon. Entire structure used as the Delano Armory by the Military Department, located at 705 South Lexington Street, in Delano, Kern County.

Parcel 16. Approximately 1,720 acres of agricultural land, being a portion of the Department of Corrections' Imperial South Centinella Prison, located at 2302 Brown Road, in Imperial, Imperial County, which shall only be available for lease.

Parcel 17. Approximately 800 acres of agricultural land, being a portion of the Department of Corrections' Imperial North Calipatria Prison, located at 7018 Blair Road, in Calipatria, Imperial County, which shall only be available for lease.

(d) The Department of General Services shall be reimbursed for any cost or expense incurred in the disposition of any parcels.

(e) Notices of every public auction or bid opening shall be posted on the property to be sold pursuant to this section, and shall be published in a newspaper of general circulation published in the county in which the real property to be sold is situated.

(f) Any sale, exchange, lease, or transfer of a parcel described in this section is exempt from Chapter 3 (commencing with Section 21100) to Chapter 6 (commencing with Section 21165), inclusive, of Division 13 of the Public Resources Code.

(g) As to any property sold pursuant to this section consisting of 15 acres or less, the Director of General Services shall except and reserve to the state all mineral deposits possessed by the state, as defined in Section 6407 of the Public Resources Code, below a depth of 500 feet, without surface rights of entry. As to property sold pursuant to this section consisting of more than 15 acres, the director shall except and reserve to the state all mineral deposits, as defined in Section 6407 of the Public Resources Code, together with the right to prospect for, mine, and remove the deposits. The rights to prospect for, mine, and remove the deposits shall be limited to those areas of the property conveyed that the director, after consultation with the State Lands Commission, determines to be reasonably necessary for the removal of the deposits.

(h) The net proceeds of any moneys received from the disposition of any parcels described in this section shall be deposited in the General Fund.

SECTION 3. Government Code Section 15862 is amended to read:

15862. (a) Except as specified in subdivision (b), all real property or interest in real property acquired by the state or the Judicial Council pursuant to the Trial Court Facilities Act of 2002 (Chapter 5.7 (commencing with Section 70301) of Title 8), or pursuant to Sections 69202 to 69206, inclusive, shall be under the jurisdiction of the Judicial Council immediately upon transfer of the title to the state.

(b) When real property is acquired by the state pursuant to this part, jurisdiction over the property shall remain in the Department of General Services until the property is needed for the purpose for which it was acquired. The Director of General Services may transfer jurisdiction of the property to the agency for whose use it was acquired before it is needed for the purpose for which acquired if in his opinion the transfer is in the best interests of the state. The department may lease all or any portion of the property which is not presently needed on terms and conditions as the director may fix and may maintain, improve, and care for the property in order to secure rent therefrom. The department may remove or demolish buildings or other structures on the property when it is desirable to do so. It may sell or dispose of the improvements or any materials available upon the demolishing of any building or structure on the property.

15862.5. Notwithstanding Section 15862, all real property or interest in real property acquired by the Department of Parks and Recreation pursuant to subdivision (d) of Section 15853 of the Government Code and Section 5006 of the Public Resources Code shall be under the jurisdiction of the Department of Parks and Recreation, immediately upon transfer of the title to the state. The Department of Parks and Recreation shall attempt to make the real property accessible and usable by the general public at the earliest possible time.

15863. (a) The *net* proceeds of any sale made pursuant to Section 15862 shall be deposited in the ~~General Fund~~ *Deficit Recovery Bond Retirement Sinking Fund Subaccount, until such time when the bonds issued pursuant to the Economic Recovery Bond Act, approved by the voters at the March 2, 2004 statewide primary election and Title 18 of the California Government Code, are retired. At that time, net proceeds, as defined in Government Code Section 11011(g), received pursuant to this section shall be deposited in the Special Fund for Economic Uncertainties.*

(b) All rents received by the Department of General Services pursuant to Section 15862 shall be deposited in the ~~General Fund~~ *Property Acquisition Law Money Account and shall be available for expenditure by the Department of General Services upon appropriation by the Legislature.*

~~(c) All money deposited in the General Fund pursuant to this section shall be available for appropriation to the Department of General Services for the care, maintenance, and improvement of the real property acquired pursuant to this part that is under the jurisdiction of, or being administered by, the Department of General Services and for any payments required to be made pursuant to Chapter 16 (commencing with Section 7260) of Division 7 of Title 1.~~

Tax Relief Item Trailer Bill:**Eliminate the Senior Citizens' Property Tax Assistance Program
and Expand Eligibility for the Senior Citizens' Property Tax
Postponement Program and Reduce the Senior Citizens Renters'
Tax Assistance Program**

Section 20505 of the Revenue and Taxation Code is amended to read:

20505. "Claimant" means an individual who--

(a) For purposes of this chapter was either (1) 62 years of age or older on the last day of the calendar year or approved fiscal year designated in subdivision (b) or (c) of Section 20503, whichever is applicable, or (2) blind or disabled, as defined in Section 12050 of the Welfare and Institutions Code on the last day of the calendar year or approved fiscal year designated in subdivision (b) of Section 20503, who was a member of the household, and who was ~~either: (1) the owner and occupier of a residential dwelling on the last day of the year designated in subdivision (b) or (c) of Section 20503, or (2) the renter of a rented residence on or before the last day of the year designated in subdivision (b) of Section 20503. An individual who qualifies as an owner claimant may not qualify as a renter claimant for the same year.~~

(b) (1) For purposes of Chapter 2 (commencing with Section 20581), Chapter 3 (commencing with Section 20625), Chapter 3.3 (commencing with Section 20639), and Chapter 3.5 (commencing with Section 20640) was a member of the household and either an owner-occupant, or a tenant stockholder occupant, or a possessory interestholder occupant, or a mobilehome owner-occupant, as the case may be, of the residential dwelling as to which postponement is claimed on the last day of the year designated in subdivision (b) or (c) of Section 20503, and who was 62 years of age or older by December 31 of the fiscal year for which postponement is claimed.

(2) For purposes of Chapter 2 (commencing with Section 20581), Chapter 3 (commencing with Section 20625), Chapter 3.3 (commencing with Section 20639), and Chapter 3.5 (commencing with Section 20640) was a member of the household and an owner-occupant of the residential dwelling as to which postponement is claimed on the last day of the year designated in subdivision (c) of Section 20503, and who was blind or disabled, as defined in Section 12050 of the Welfare and Institutions Code, at the time of application or on December 10 of the fiscal year for which postponement is claimed, whichever is earlier.

~~(c) Where amounts have been postponed for any given fiscal year and the claimant continues to own and occupy the residential dwelling on December 31 of the calendar year in which the fiscal year begins, and the claimant sells the dwelling and buys a new residential~~

~~dwelling in this state on or before December 31 of the following fiscal year and the new dwelling is the claimant's principal place of residence, then in that event, the claimant shall be deemed to be a qualified claimant for the purpose of this section. These regulations shall become effective immediately upon filing with the Secretary of State.~~

Section 20508 of the Revenue and Taxation Code is amended to read:

20508. "Residential dwelling" means a dwelling occupied by the claimant as the principal place of residence, and so much of the land surrounding it as is reasonably necessary for use of the dwelling as a home, owned by the claimant, the claimant and his spouse, or by the claimant and some other individual, and located in this state. It shall also include a residential unit in a cooperative housing corporation (as defined in Section 216(b) of the Internal Revenue Code) occupied by the owner of shares or a membership interest in such corporation as his or her principal residence, mobilehomes which are assessed as realty for local property tax purposes and the land on which situated, houseboats, and other similar living accommodations, as well as a part of a multidwelling or multipurpose building and a part of the land upon which it is built. It shall also include premises occupied by reason of the claimant's ownership of a dwelling located on land owned by a nonprofit incorporated association, of which the claimant is a member, when such association requires the claimant to pay a pro rata share of the property taxes levied against the association's land. It shall also include premises occupied by a claimant wherein he is required by law to pay a property tax by reason of his ownership (including a possessory interest) in the dwelling, the land, or both. It shall also include a dwelling unit which is a mobilehome owned by a claimant, subject to property taxation pursuant to Part 13 (commencing with Section 5800), and located on land which is owned or rented by such claimant. (Owned includes the interest of a vendee in possession under a land sale contract but not the interest of the vendor, the interest of the holder of a life estate interest, but not the interest of a remainderman, and of one or more joint tenants or tenants in common. Except in the case of an unrecorded land sale contract, ownership must be evidenced by a duly recorded document.)

Section 20514 of the Revenue and Taxation Code is amended to read:

20514. (a) Assistance shall not be allowed under this chapter if gross household income, after allowance for actual cash expenditures that are reasonable, ordinary, and necessary to realize income, exceeds thirteen thousand two hundred dollars (\$13,200), ~~thirty-five thousand two hundred fifty-one dollars (\$35,251)~~.

(b) With respect to assistance that is provided by the Franchise Tax Board pursuant to this chapter for the ~~2002~~ 2006 calendar year and each calendar year thereafter, the gross household income figure that applies to assistance provided by the Franchise Tax Board during that period shall be the gross household income figure that

applied to assistance provided by the Franchise Tax Board in the same period in the immediately preceding year, multiplied by an inflation adjustment factor calculated as follows:

(1) On or before February 1 of each year, the Department of Industrial Relations shall transmit to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the second preceding calendar year to June of the immediately preceding calendar year.

(2) The Franchise Tax Board shall add 100 percent to the percentage change figure that is furnished pursuant to paragraph (1) and divide the result by 100.

(3) The Franchise Tax Board shall multiply the gross household income figure that applies in the immediately preceding year by the inflation adjustment factor determined in paragraph (2), and round off the resulting product to the nearest one dollar (\$1).

Section 20541 of the Revenue and Taxation Code is amended to read:

20541. (a) Subject to the limitations provided in this chapter a claimant may, to the extent provided in Section ~~20543 or~~ 20544, ~~whichever is applicable~~, file with the Franchise Tax Board, pursuant to Article 3 (commencing with Section 20561) of this chapter, a claim for assistance from the State of California of a sum equal to ~~a percentage of the property taxes accrued and paid by the claimant on his residential dwelling or a sum equal to the percentage of the~~ applicable statutory property tax equivalent under Section 20544 with respect to a claimant renting his residence.

(b) The owner of a dwelling unit which is a mobilehome subject to the license fee imposed by Part 5 (commencing with Section 10701) of this division which is located on land which is ~~owned or~~ rented by such owner may ~~elect to~~ file under subdivision (a) for assistance provided in ~~either Section 20543 or~~ 20544.

Section 20542 of the Revenue and Taxation Code is amended to read:

20542. (a) The Franchise Tax Board, pursuant to the provisions of Article 3 (commencing with Section 20561), of this chapter, shall provide assistance to the claimant based on a percentage of the ~~property tax accrued and paid by the claimant on the residential dwelling as provided in Section 20543 or the~~ statutory property tax equivalent pursuant to Section 20544. ~~In case of an owner claimant, the assistance shall be equal to the applicable percentage of property taxes paid on the full value of the residential dwelling up to, and including, thirty four thousand dollars (\$34,000). No assistance shall be allowed for property taxes paid on that portion of full value of a residential dwelling exceeding thirty four thousand dollars (\$34,000). No assistance shall be provided if the amount of the assistance claim is five dollars (\$5) or less.~~

(b) For purposes of allowing assistance provided for by this section:

(1) ~~(A) Only one owner claimant from one household each year shall be entitled to assistance under this chapter. When two or~~

~~more individuals of a household are able to meet the qualifications for an owner claimant, they may determine who the owner claimant shall be. If they are unable to agree, the matter shall be referred to the Franchise Tax Board and its decision shall be final.~~

(B) When two or more individuals pay rent for the same premises and each individual meets the qualifications for a renter-claimant, each qualified individual shall be entitled to assistance under this part.

For the purposes of this subparagraph, a husband and wife residing in the same premises shall be presumed to be one renter.

(2) Except as provided in paragraph (3), the right to file a claim shall be personal to the claimant and shall not survive his death; however, when a claimant dies after having filed a timely claim, the amount thereof may be disbursed to the surviving spouse and, if no surviving spouse, to any other member of the household who is a qualified claimant. If there is no surviving spouse or otherwise qualified claimant, the claim shall be disbursed to any other member of the household. In the event two or more individuals qualify for payment as either an otherwise qualified claimant or a member of the household, they may determine which of them will be paid. If they are unable to agree, the matter shall be referred to the Franchise Tax Board and its decision shall be final.

(3) If, after January 1 of the property tax fiscal year for which a claim may be filed, a claimant dies without filing a timely claim, a claim on behalf of such claimant may be filed by the surviving spouse within the filing period prescribed in subdivision (a) or (b) of Section 20563.

~~—— (4) If an individual postponed taxes for any given property tax fiscal year under Chapter 2 (commencing with Section 20581), Chapter 3 (commencing with Section 20625), Chapter 3.3 (commencing with Section 20639), or Chapter 3.5 (commencing with Section 20640), then any claim for assistance under this chapter for the same property tax fiscal year shall be filed by such individual (assuming all other eligibility requirements in this chapter are satisfied) and not an otherwise qualified member of the individual's household.~~

Section 20543 of the Revenue and Taxation Code is eliminated.

~~20543. (a) (1) The amount of assistance for a claimant owning his or her residential dwelling shall be based on the claimant's household income for the period set forth in Section 20503.~~

~~—— (2) For claims filed with respect to the 2001 calendar year and each calendar year thereafter, the percentage of assistance for which each claimant owning his or her residential dwelling shall be eligible based on the following scale:~~

—————	The percentage of tax on the
—————	first \$34,000 of full value
—— If the total household income	(as determined for tax
—— (as defined in this part)	purposes) used to provide
—— is not more than:	assistance is:
————— \$8,812	139%

9,400	136
9,987	133
10,575	131
11,163	128
11,750	125
12,337	122
12,925	119
13,513	116
14,101	113
14,688	110
15,275	106
15,863	100
16,451	94
17,038	88
17,626	83
18,213	77
18,800	71
19,389	65
19,976	59
20,564	54
21,151	49
21,738	45
22,327	41
22,914	36
23,500	32
24,088	29
24,675	26
25,263	23
25,851	20
26,438	17
27,908	15
29,376	12
30,846	10
32,314	9
33,783	7
35,251	6

(b) With respect to assistance that is provided by the Franchise Tax Board pursuant to this chapter for the 2002 calendar year and each year thereafter, the household income figures that apply to assistance provided by the Franchise Tax Board during that period shall be the household income figures that applied to assistance provided by the Franchise Tax Board in the same period in the immediately preceding year, multiplied by an inflation factor calculated as follows:

(1) On or before February 1 of each year, the Department of Industrial Relations shall transmit to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the second preceding calendar year to June of the immediately preceding calendar year.

(2) The Franchise Tax Board shall add 100 percent to the

~~percentage change figure that is furnished pursuant to paragraph (1) and divide the result by 100.~~

~~— (3) The Franchise Tax Board shall multiply the immediately preceding household income figure by the inflation adjustment factor determined in paragraph (2), and round off the resulting product to the nearest one dollar (\$1).~~

Section 20544 of the Revenue and Taxation Code is amended to read:

20544. (a) (1) The amount of assistance for a claimant renting his or her residence shall be based on the claimant's household income for the time period set forth in Section 20503.

(2) For claims filed with respect to the ~~2001~~ 2005 calendar year, and each calendar year thereafter, the ~~percentage of~~ assistance for which each claimant renting his or her residence shall be eligible shall be based on the following scale:

If Total Household Income is		Renter's Assistance is
From	To	
\$0	\$3,300	\$240
\$3,301	\$3,520	\$236
\$3,521	\$3,740	\$232
\$3,741	\$3,960	\$228
\$3,961	\$4,180	\$224
\$4,181	\$4,400	\$220
\$4,401	\$4,620	\$216
\$4,621	\$4,840	\$212
\$4,841	\$5,060	\$208
\$5,061	\$5,280	\$204
\$5,281	\$5,500	\$200
\$5,501	\$5,720	\$196
\$5,721	\$5,940	\$192
\$5,941	\$6,160	\$184
\$6,161	\$6,380	\$176
\$6,381	\$6,600	\$168
\$6,601	\$6,820	\$160
\$6,821	\$7,040	\$152
\$7,041	\$7,260	\$144
\$7,261	\$7,480	\$136
\$7,481	\$7,700	\$128
\$7,701	\$7,920	\$122
\$7,921	\$8,140	\$117
\$8,141	\$8,360	\$112
\$8,361	\$8,580	\$107
\$8,581	\$8,800	\$102
\$8,801	\$9,020	\$98
\$9,021	\$9,240	\$94

\$9,241	\$9,460	\$90
\$9,461	\$9,680	\$86
\$9,681	\$9,900	\$82
\$9,901	\$10,450	\$78
\$10,451	\$11,000	\$74
\$11,001	\$11,550	\$73
\$11,551	\$12,100	\$72
\$12,101	\$12,650	\$71
\$12,651	\$13,200	\$70
\$13,201	Over	\$0

If the total household income (as defined in this part) is not more than:	The statutory property tax equivalent is:	The percentage of the statutory property tax equivalent used to provide assistance is:
\$8,812	\$250	139%
9,400	250	136
9,987	250	133
10,575	250	131
11,163	250	128
11,750	250	125
12,337	250	122
12,925	250	119
13,513	250	116
14,101	250	113
14,688	250	110
15,275	250	106
15,863	250	100
16,451	250	94
17,038	250	88
17,626	250	83
18,213	250	77
18,800	250	71
19,389	250	65
19,976	250	59
20,564	250	54
21,151	250	49
21,738	250	45
22,327	250	41
22,914	250	36
23,500	250	32
24,088	250	29
24,675	250	26
25,263	250	23
25,851	250	20
26,438	250	17
27,908	250	15
29,376	250	12
30,846	250	10

32,314	250	9
33,783	250	7
35,251	250	6

(b) With respect to assistance that is provided by the Franchise Tax Board pursuant to this chapter for the ~~2002~~ 2006 calendar year and each year thereafter, the household income figures that apply to assistance provided by the Franchise Tax Board during that period shall be the household income figures that applied to assistance provided by the Franchise Tax Board in the same period in the immediately preceding year, multiplied by an inflation factor calculated as follows:

(1) On or before February 1 of each year, the Department of Industrial Relations shall transmit to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the second preceding calendar year to June of the immediately preceding calendar year.

(2) The Franchise Tax Board shall add 100 percent to the percentage change figure that is furnished pursuant to paragraph (1) and divide the result by 100.

(3) The Franchise Tax Board shall multiply the immediately preceding household income figure by the inflation adjustment factor determined in paragraph (2), and round off the resulting product to the nearest one dollar (\$1).

Section 20562 of the Revenue and Taxation Code is eliminated.

~~20562. For the purposes of this chapter, the requirement that property taxes be paid before assistance can be granted may be waived if the taxes were not paid for reasonable cause and the claimant declares under penalty of perjury that the assistance granted will be promptly applied to pay delinquent property taxes on the residential dwelling to the extent reasonably feasible under the circumstances.~~

Section 20564 of the Revenue and Taxation Code is amended to read:

20564. (a) If a lien for the assistance fiscal year has been acquired ~~against the property, or, in the case of a mobilehome,~~ against the certificate of title, of a mobilehome of the claimant by reason of the claimant's use of a certificate of eligibility which was paid pursuant to Chapter 6 (commencing with Section 16180) of Part 1 of Division 4 of Title 2 of the Government Code, the net payment otherwise due such claimant shall first be applied by the Controller to reduce the obligation secured by such lien.

(b) If a lien has been reduced as provided in subdivision (a) and the Franchise Tax Board subsequently determines that the assistance allowed for such year was erroneous, the Franchise Tax Board shall notify the Controller who will make an appropriate adjustment to the lien.

SEC. 2. Section 20585 of the Revenue and Taxation Code is amended to read:

20585. Postponement shall not be allowed under this chapter or Chapter 3 (commencing with Section 20625), Chapter 3.3 (commencing with Section 20639), or Chapter 3.5 (commencing with Section 20640) if household income exceeds either of the following amounts:

(a) For the 1976 calendar year or for ~~an~~ *any* approved fiscal year commencing within ~~such~~ *that* calendar year, household income shall not exceed twenty thousand dollars (\$20,000).

(b) For all subsequent calendar years and approved fiscal years, postponement shall not be allowed under this chapter, Chapter 3 (commencing with Section 20625), Chapter 3.3 (commencing with Section 20639), or Chapter 3.5 (commencing with Section 20640) if household income exceeds an amount determined as follows:

(1) On or before March 1 of each year, the California Department of Industrial Relations shall transmit to the Controller the percentages of increase in the California Consumer Price Index for all Urban Consumers and in the California Consumer Price Index for Urban Wage Earners and Clerical Workers of December of the prior calendar year over December of the preceding calendar year.

(2) The Controller shall compute an inflation adjustment factor by adding 100 percent to the larger of the California Consumer Price Index percentage increases furnished pursuant to paragraph (1).

(3) In 1978, the Franchise Tax Board shall multiply twenty thousand dollars (\$20,000) by the inflation adjustment factor to determine the maximum allowable gross household income for the 1977 calendar year and for approved fiscal years commencing within ~~such years~~ *that calendar year*. In 1979 and subsequent calendar years through and including 1983, the Controller shall multiply the maximum allowable household income determined for the preceding calendar year by the inflation adjustment factor to determine the maximum allowable household income for the applicable calendar year and approved fiscal years commencing within ~~such~~ *that* calendar year. In determining the maximum allowable household income pursuant to this section, the Controller shall round ~~such~~ *that* amount to the nearest hundred dollar amount.

(c) For calendar year 1984 and subsequent calendar years and for approved fiscal years commencing within those years, postponement shall not be allowed under this chapter, Chapter 3 (commencing with Section 20626), Chapter 3.3 (commencing with Section 20639), or Chapter 3.5 (commencing with Section 20640), if household income exceeds an amount determined as follows:

(1) For claimants who filed and qualified in the calendar year 1983, ~~thirty-four thousand dollars (\$34,000)~~ *and for whom postponement has been allowed for each subsequent calendar year up to and including the calendar year 2004, thirty-four thousand dollars (\$34,000). For these same claimants, for the*

calendar year 2005 or for any approved fiscal year commencing within that calendar year, household income may not exceed thirty-nine thousand seven hundred dollars (\$39,700).

(2) For all other claimants, for calendar years up to and including 2004, household income may not exceed twenty-four thousand dollars (\$24,000). For these same claimants, for the 2005 calendar year or for any approved fiscal year commencing within that calendar year, household income may not exceed thirty-nine thousand seven hundred dollars (\$39,700).

(3) For the 2006 calendar year and each subsequent calendar year, and for any approved fiscal year commencing within that calendar year, the household income amount specified in paragraphs (1) and (2) of subdivision (c) shall be adjusted for inflation, in accordance with an inflation factor determined pursuant to paragraphs (1) and (2) of subdivision (b).

Trailer Bill for Control Section 33.50:**California's Procurement Initiative for the 21st Century**

SECTION 1. Section 1139.8 of the Government Code is amended to read:

1139.8. (a) Notwithstanding any other provision of law, commencing January 1, 2003, each state department or agency awarding a contract or procuring goods or services shall, and each local agency receiving state funds may, collect information and report to the Governor and the Legislature on the level of participation by minority, women, and disabled veteran-owned business enterprises in contract and procurement activities as identified in this section. The reports shall be submitted annually, on or before July 1 of each year, and shall include dollar values of contract awards for the following categories of contractors:

~~(a)~~ (1) Construction.

~~(b)~~ (2) Architecture and engineering and other professional services.

~~(c)~~ (3) Procurement of materials, supplies, and equipment.

~~(d)~~ (4) Information technology procurements.

(b) This section shall become operative on January 1, 2007, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the date on which it becomes inoperative and is repealed.

SECTION 2. Section 14840 of the Government Code is amended to read:

14840. The department shall submit an annual report to the Legislature no later than January 1 of each year containing the following information:

(a) Upon request, an up-to-date list of eligible small business bidders by general procurement and construction contract categories, noting company names and addresses and also noting which small businesses also qualify as microbusinesses.

(b) By general procurement and construction contract categories, statistics comparing the small business and microbusiness contract participation dollars to the total state contract participation dollars.

(c) By awarding department and general procurement and construction categories, statistics comparing the small business and microbusiness contract participation dollars to the total state contract participation dollars.

(d) Any recommendations for changes in statutes or state policies to improve opportunities for small businesses and microbusinesses.

(e) A statistical summary of small businesses and microbusinesses certified for state contracting by the number of employees at the business for each of the following categories: 0-25, 26-50, 51-75, and 76-100.

(f) To the extent feasible, beginning in the year 2002, the number of contracts awarded by the department in the categories specified in subdivision (e).

(g) The number of contracts and dollar amounts awarded annually pursuant to Section 14838.5 to small businesses, microbusinesses, and disabled veteran business enterprises.

(h) This section shall become operative on January 1, 2007, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the date on which it becomes inoperative and is repealed.

SECTION 3. Section 999.7 of the Military and Veterans Code is amended to read:

999.7. (a) ~~(4)~~ On January 1 of each year, each awarding department shall report to the Governor, the Legislature, the Department of General Services, and the Department of Veterans Affairs on the level of participation by disabled veteran business enterprises in contracts identified in this article for the previous fiscal year.

~~(2) If the awarding department has not met the established goals for that year, the awarding department shall report to the Legislature, the Department of General Services, and the Department of Veterans Affairs the reasons for the awarding department's inability to achieve the goals and shall identify steps it shall take in an effort to achieve the goals.~~

(b) On April 1 of each year, the Department of General Services shall prepare for the Governor, the Legislature, and the Department of Veterans Affairs a statewide statistical summary detailing each awarding department's goal achievement and a statewide total of those goals.

(c) This section shall become operative on January 1, 2007, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the date on which it becomes inoperative and is repealed.

SECTION 4. Section 6611 of the Public Contract Code is amended to read:

6611. (a) Notwithstanding any other provision of law, the Department of General Services may, relative to contracts for goods, services, information technology, and telecommunications, use a negotiation process if the department finds that one or more of the following conditions exist:

(1) The business need or purpose of a procurement or contract can be further defined as a result of a negotiation process.

(2) The business need or purpose of a procurement or contract is known by the department, but a negotiation process may identify different types of solutions to fulfill this business need or purpose.

(3) The complexity of the purpose or need suggests a bidder's costs to prepare and develop a solicitation response are extremely high.

(4) The business need or purpose of a procurement or contract is known by the department, but negotiation is necessary to ensure that the department is receiving the best value or the most cost-efficient goods, services, information technology, and telecommunications.

(b) When it is in the best interests of the state, the department may negotiate amendments to the terms and conditions, including scope of work, of existing contracts for goods, services, information technology, and telecommunications, whether or not the original contract was the result of competition, on behalf of itself or another state agency.

(c) (1) The department shall establish the procedures and guidelines for the negotiation process described in subdivision (a), which procedures and guidelines shall include, but not be limited to, a clear description of the methodology that will be used by the department to evaluate a bid for the procurement goods, services, information technology, and telecommunications.

(2) The procedures and guidelines described in paragraph (1) may include provisions that authorize the department to receive supplemental bids after the initial bids are opened. If the procedures and guidelines include these provisions, the procedures and guidelines shall specify the conditions under which supplemental bids may be received by the department.

~~(d) This section shall become inoperative on July 1, 2006, and, as of January 1, 2007, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the dates on which it becomes inoperative and is repealed.~~

SECTION 5. Section 10115.5 of the Public Contract Code is amended to read:

10115.5. (a) Notwithstanding Section 7550.5 of the Government Code, on January 1 of each year, each awarding department shall report to the Governor and the Legislature on the level of participation by minority, women, and disabled veteran business enterprises in contracts as identified in this article for the fiscal year beginning July 1 and ending June 30. In addition, the report shall contain the levels of participation by minority, women, and disabled veteran business enterprises for the following categories of contracts:

- (1) Construction.
- (2) Purchases of materials, supplies, and equipment.
- (3) Professional services.
- (4) All contracts for a dollar amount of less than twenty-five thousand dollars (\$25,000).

(b) If the established goals are not being met, the awarding department shall report the reasons for its inability to achieve the standards and identify remedial steps it shall take.

(c) This section shall become operative on January 1, 2007, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the date on which it becomes inoperative and is repealed.

SECTION 6. Section 10116 of the Public Contract Code is amended to read:

10116. (a) On January 1, of each year, each awarding department shall report to the Governor and the Legislature on the level of participation of business enterprises, by race, ethnicity, and gender of owner *to the extent that such information has been voluntarily reported to the awarding department*, in contracts as identified in this article for the fiscal year beginning July 1 and ending June 30. In addition, the report shall contain the levels of participation of business enterprises, by race, ethnicity, and gender of owner, for the following categories of contracts:

- (1) Construction.
- (2) Purchases of materials, supplies, or equipment.
- (3) Professional services.
- (4) All contracts for a dollar amount of less than twenty-five thousand dollars (\$25,000).

(b) Awarding departments are prohibited from using the data compiled under this section to discriminate or provide a preference in the awarding of any contracts.

(c) Contractors are prohibited from using the information compiled under this section to discriminate or provide a preference in the solicitation or acceptance of bids for subcontracting, or for materials or equipment, on the basis of race, color, sex, ethnic origin, or ancestry.

(d) This section shall become operative on January 1, 2007, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the date on which it becomes inoperative and is repealed.

SECTION 7. Section 10359 of the Public Contract Code is amended to read:

10359. (a) Each state agency shall annually prepare a report pursuant to this section that includes a list of the consulting services contracts that it has entered into during the previous fiscal year. The listing shall include the following information:

- (1) The name and identification of each contractor.
- (2) The type of bidding entered into, the number of bidders, whether the low bidder was accepted, and if the low bidder was not accepted, an explanation of why another contractor was selected.
- (3) The amount of the contract price.

(4) Whether the contract was a sole-source contract, and why the contract was a sole-source contract.

(5) Justification for entering into each consulting services contract.

(6) The purpose of the contract and the potential beneficiaries.

(7) The date when the initial contract was signed, and the date when the work began and was completed.

The report shall also include a separate listing of consultant contracts completed during that fiscal year, with the same information as above.

(b) The report this section requires shall also include a list of any contracts underway during that fiscal year on which any change was made regarding the following:

(1) The completion date of the contract.

(2) The amount of money to be received by the contractor, if it exceeds 3 percent of the original contract price.

(3) The purpose of the contract or duties of the contractor. A brief explanation shall be given if the change in purpose is significant.

(c) Copies of the annual report shall be sent within 60 working days after the end of the previous fiscal year to the Legislative Analyst, the Department of Finance, the Department of General Services, the State Auditor, the Joint Legislative Budget Committee, the Joint Legislative Audit Committee, the Senate Appropriations Committee, and the Assembly Appropriations Committee.

(d) State agencies may not use the temporary budget allocation process as a means of circumventing the requirements of this section.

(e) Within 120 working days after the close of the fiscal year, the department shall furnish to the officials and committees listed in subdivision (c), a list of the departments and agencies that have not submitted the required report specified in this section.

(f) The department shall annually submit to the Legislature, the Legislative Analyst, the Department of Finance, and the Auditor General, a report describing the information furnished to the department pursuant to this section.

(g) *This section shall become operative on January 1, 2007, and as of that date, is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends the date on which it becomes inoperative and is repealed.*

SECTION 8. The following section is added to the Public Contract Code:

Section XX. Commencing January 1, 2007, the department shall make available a report on contracting activity containing the following information:

(a) A listing of consulting services contracts that the state has entered into during the previous fiscal year. The listing shall include the following:

(1) The name and identification number of each contractor.

(2) The type of bidding entered into, the number of bidders, whether the low bidder was accepted, and if the low bidder was not accepted, an explanation of why another contractor was selected.

(3) The amount of the contract price.

(4) Whether the contract was a noncompetitive bid contract, and why the contract was a noncompetitive bid contract.

(5) Justification for entering into each consulting services contract.

(6) The purpose of the contract and the potential beneficiaries.

(7) The date when the initial contract was signed, and the date when the work began and was completed.

(b) The report shall also include a separate listing of consultant contracts completed during that fiscal year, with the same information as above.

(c) The information regarding consulting services contracts this section requires shall also include a list of any contracts underway during that fiscal year on which any change was made regarding the following:

(1) The completion date of the contract.

(2) The amount of money to be received by the contractor, if it exceeds three percent of the original contract price.

(3) The purpose of the contract or duties of the contractor. A brief explanation shall be given if the change in purpose is significant.

(d) The level of participation, by agency, of disabled veteran business enterprises in statewide contracting and shall include dollar values of contract award for the following categories:

(1) Construction.

(2) Architecture and engineering and other professional services.

(3) Procurement of materials, supplies, and equipment.

(4) Information technology procurements.

Additionally, the report shall include a statistical summary detailing each awarding department's goal achievement and a statewide total of those goals.

(e) The level of participation by small business in state contracting including:

(1) Upon request, an up-to-date list of eligible small business bidders by general procurement and construction contract categories, noting company names and addresses and also noting which small businesses also qualify as microbusinesses.

(2) By general procurement and construction contract categories, statistics comparing the small business and microbusiness contract participation dollars to the total state contract participation dollars.

(3) By awarding department and general procurement and construction categories, statistics comparing the small business and microbusiness contract participation dollars to the total state contract participation dollars.

(4) Any recommendations for changes in statutes or state policies to improve opportunities for small businesses and microbusinesses.

(5) A statistical summary of small businesses and microbusinesses certified for state contracting by the number of employees at the business for each of the following categories: 0-25, 26-50, 51-75, and 76-100.

(6) To the extent feasible, beginning in the year 2008, the number of contracts awarded by the department in the categories specified in paragraph (5).

(7) The number of contracts and dollar amounts awarded annually pursuant to Section 14838.5 of the Government Code to small businesses, microbusinesses, and disabled veteran business enterprises.

(f) The level of participation of business enterprises, by race, ethnicity, and gender of owner, in contracts as identified in Section 2051 of the Government Code, to the extent that such information has been voluntarily reported to the department. In addition, the report shall contain the levels of participation of business enterprises, by race, ethnicity, and gender of owner, for the following categories of contracts, to the extent that such information has been voluntarily reported to the department:

- (1) Construction.*
- (2) Purchases of materials, supplies, or equipment.*
- (3) Professional services*